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Managing Organizational Competencies for Sustainable Business Excellence

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Abstract
Contemporary business challenges are predominantly oriented towards creation of an ‘integrated management system for sustainability’ which would integrate the continuous determination for a sustained competitive advantage, as well as the need for a profound creation and implementation of an organizational transformation model that unifies the proper environmental, economic and social changes.

The characteristics of each organizational crisis lead to the need for building and sustaining a ‘model of competitive advantage’ focused on organizational competencies, cultural diversity, developmental imperatives as well as seizing the global competitive risk. In this process, organizational change agents systematically develop and manage a model in which organizational support and job satisfaction on the one hand, and reinforcement and reorientation on the other, enable managing the organizational competencies, as a prior determinant of every competitive advantage.

The necessity for achieving the business excellence lies not only in the developmental path of an enterprise, but also in the tendency for managing the organizational direction towards an ‘organizational renewal’, which is the base for a sustainability of the proposed model of business excellence. The potential of the business excellence is immense, particularly in guiding the planned and continuous organizational changes and development, as a precondition for an ongoing competitive enterprise which is capable of integrating the process and behavioral organizational elements, on a long-term basis. Therefore, advanced enterprises, especially multinational corporations, are entirely focused on creating and managing a ‘model of sustainable business excellence’, as a focal element in the market differentiation and increasing their public value.

Keywords
Organizational competencies, integrated management system for sustainability, organizational renewal, sustainable company, sustainable business excellence.

Introduction
The importance of a proper managerial system for achieving and further development of a competitive advantage and the need for sustainability emerges nowadays as a result of the orientation for an organic treatment of the integrative segments in every enterprise, predominantly of their organizational vision and values, structures, processes and the human resources. Among numerous challenges of every prosperous manager, the following managerial implications arise as most crucial for the future competitive advantage of the enterprise:

- the inability to predict their future,
- the inability to control their behavior,
- the inability to influence their future trajectory for survival and success.

The inability to predict the future of the business is linked to the potential for managing the composing business elements sensitive to changes, the ones that are most important for determining the direction in the organizational development process, such as quality degree, effectiveness of the cost strategy, efficiency of overall management system, capability for determining the business priorities etc. In this context, it is important to stress that the ‘butterfly phenomenon
effect’ is not always in a position to determine and maintain the change direction, the depth and width of the actual changes for organizational competitiveness, and the planning process which should not always relate to the results, but predominantly to the learning model for competitiveness.

The inability to control the behavior of the organization is a managerial implication that pays attention to the thorough need for a proper determination of leadership capacity for organizational transformation. In this context, transparent leadership is related to both internal and external change stimulus, owing to the fact that this approach builds a ‘collective organizational intelligence’, which determines the potential of the future model of business excellence. The level of importance of this transformations would be best described in the behavior of Ken Kutaragi, the leading R&D engineer in Sony, who managed to make the critical change in attitudes of the Sony leaders, from electronic devices based on analogue technologies (VCRs, television sets, tape players etc.) to value-based products based on digital technologies (Lap tops, Play Stations, PC games etc.) and transform the overall Sony strategy towards a ‘premium supplier of complete e-business solutions’.

The inability to influence the future trajectory of the organizational survival and their future success is an indicator of the organizational capacity for building a model of competitive advantage and managing it on a continuous basis. The organizational survival is an evolutionary concept which is connected to transitional organizational changes, whereas future success creation is linked to the transformational organizational changes, especially the ones that are focused and integrated. The model of organizational development of an enterprise should always enable usage of the ‘imperatives for changes which derive from the external environment’ and a proper ‘harmonizing with the internal sources of competitive advantage’, as a prior pathway for a sustainable model of business excellence.

The integration of all above implications is connected with the organizational potential for a ‘dual management code’ which stipulates accommodation of succeeding periods of stability and transformation, as indicators for effectiveness of undertaken changes with the efficiency of its implementation.

1. Organizational change framework for sustainable management of organizational competencies

1.1. Managing company sustainability

In essence, the intention for developing the organization in the direction of the sustainability is a managerial attempt to integrate the cognitive, learning and excellence elements of every enterprise with the prevalent competitive advantage model. In this context, the initial necessity is to clarify precisely the theoretical determination of the sustainable company, on the following way:

<table>
<thead>
<tr>
<th>Organization</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Protection Agency (US EPA)</td>
<td>Environmentally sustainable organization functions in the way that preserves elements and functions of environment for future generation, i.e. positive environmental impacts are larger than negative effects</td>
</tr>
<tr>
<td>Sustainablebusiness.com</td>
<td>Sustainable business is business that contributes to an equitable and ecologically sustainable company</td>
</tr>
<tr>
<td>World Council for Sustainable Business</td>
<td>For a company, sustainable development means adoption of such business strategy and such actions that contribute to satisfying present needs of company and interested parties, as well as simultaneous protection, maintenance and strengthening of human and environmental potential which will be needed in the future</td>
</tr>
<tr>
<td>Sustainable Development International Corporation</td>
<td>Sustainable company may function in a short period of time without negative influence on the conditions of existence and functioning of other groups and individuals, including organizations</td>
</tr>
</tbody>
</table>

Source: Adopted according to Sidorczuk-Pietraszko, 2007, p.212

The fundamental comparison of the above detailed definitions leads to the need for a clarification of the major characteristics of an existing or a future organizational crisis. The prevalent features, in accordance with the increasingly important opinion of experts (Boin, 2005; Pearson & Clair, 1998) are the following:

- the presence of potential threats, triggers – turning points and the idea of incubation,
uncertainty about the resolution of a crisis and its after-effects,
the urgent need to act, and
potentially harmful impacts on individuals, organization or society as a whole.

These crisis characteristics imply that each one can influence the managerial potential for creating and maintaining the proper organizational structures and systems, which, in return, could identify and implement appropriate decision change making process, as an answer to the continuously changing internal and external environment. In order to connect the implications of the organizational crisis with the sustainable elements of certain managerial systems, a clear distinction of management sustainability models is essential, in our opinion through the following prevalent expert opinion on system interconnection:

- Environmental criteria – Environmental Management Systems – ISO 14001;

The usage of above stated sustainability criteria in a real business environment leads to a more effective results in evolutionary, transactional organizational changes, than in revolutionary, transformational organizational changes. The main reason for it is the required higher degree of interdependence of the qualitative organizational segments in the revolutionary approach, compared to the transactional ones, which are process detailed, with a major focus on detailed structural preparations for advanced qualitative improvements.

In fact, each of these systems does not ensure, on a short-term basis, profound qualitative enhancements, but is more focused in detailing the ‘critical to quality elements’ and their ongoing improvements. On the other hand, they can easily co-exist in companies simultaneously and can be directly linked to the model of harmonization or equalizing the benefits of social, environmental and economic objectives. As a result, they create a process oriented framework for managing the sustainability in the aim of sustainable business excellence.

In creating an organizational change framework, a prior attention is placed on stimulating planning and implementing of changes required for sustainability, initially through the concept of empowerment. Having in mind that the overall working empowerment is usually composed of behavioral, verbal and outcome empowerment, the dominant influence towards the organizational change framework possesses the behavioral one, precisely determined in the following way:

- Behavioral empowerment refers to managing in the job, the ability to work in groups with colleagues, and the ability to identify problems that need to be solved.

The process of benefiting from the behavioral empowerment is conducted through increasing the organizational commitment – in terms of perceived organizational support and outcomes, and the job satisfaction – in terms of positive perceptions and attitudes of all employees. Therefore, in unifying the organizational commitment and the job satisfaction, a major influence possesses the level of confidence and cooperation among all staff members. In other words, every action that is undertaken by the managers in planning and implementing the changes for sustainability must incorporate the optimally perceived consequences of the actions as well as creating and enhancing the usage of multidisciplinary teams, both for planning and for implementing the sustainable changes.

The actual importance of the sustainability and the sustainable development on the overall company development may best be illustrated on the example of 3M’s Pollution Prevention Pays Program, which possesses the following important sustainability achievements (Bansal, 2001):

- Overall program has been composed of 4850 minor projects which were aimed at reducing the pollution;
- In 10 years, from 1990-1999, company managed to reduce:
  - the air emissions by 95%,
  - volatile organic compounds by 85%,
  - releases to water by 80%,
  - the production of solid waste by 33%,
  - energy consumption by 25%.

It is evident that the environmental dimensions have turned from subject to object in the overall managerial approach of 3M in managing a sustainable competitive advantage, which in return lead to 25-40% increase in profitability of various business company units.
1.2. Organizational competencies for sustainable competitive advantage

While treating the dimension of competiveness through the demands of the sustainable organizational development, it is recommendable not only to focus on lowering the costs, but more often to increasing the sustainable revenues. Therefore, a lot of firms are faced with a need for implementing the process of ‘subscribing to sustainable development’, which is determined as:

- Proactive process with respect to social and environmental issues, which are inevitably codified in laws and regulations.

The main determinant for the subscribing process is the proactive approach, not the reactive one, as an answer to the increasingly high sustainable issues and treating them in accordance with the level of their influence towards the organizational competitive advantage.

In building the organizational competencies, the dominant role is played by the organizational change agent for sustainability, as an individual or a group/team which, in fact, encompasses various criteria for sustainability and their implication to the overall competitive advantage.

In order to determine the potential of each of them, the change agent is expected to manage the fundamental determinants of creating the process of organizational renewal, primarily expressed through their purposes, on the following way:

- The quality of conversation for action and change – related to, but more inclusive than, the rate of information flow in a system network;
- The degree of diversity in its change agents – affecting the collective intelligence and the capacity for creativity and innovation in the face of change;
- The richness of connectivity that affects its sense of identity – expressing the perception of the boundary versus the environment interface;
- The degree of felt stress among system change agents – resulting the existing level of anxiety caused by the present control and (dis)incentives;
- The degree of empowerment of system change agents – based on the existing authority and control, as set in the organization’s design.

The optimal combination of the above determined purposes, for the striving for sustainable competitive advantage, would vary with regards to the character of the analyzed industry, the degree of complexity of the needed changes and the level of advancement of methodological and empirical knowledge, abilities, skills and experience of the employees, especially of the managers of the enterprise.

In developing and managing organizational competencies, the initial step undoubtedly is clarification of the proposals for managing competitive advantage, determined in the following way:

1. National Competitiveness Strategy;
2. National Branding;
3. Sectoral Competitiveness;
4. In-Country Alliances; and

All of these proposals create the change framework on the top management level for identifying, developing and further profound usage of the desired competencies. At the same time, the process of exploitation, increasing the awareness and employee understanding of organizational competencies is in hands of the middle managers, as intermediary managerial element between the top management and the line managers.

In essence, organizational competencies integrate a unique combination of knowledge and applicative skills, with a fundamental aim of guiding the action change programs for competitive advantage. They enable employees better to understand and implement the organizational knowledge and skills on a group/team level, as well as on an individual level. In order to fulfil the intention of a distinguished competitive advantage, each organizational competency must be valuable, rare and impossible (process complicated or costly) for imitation.

The utmost orientation of organizational competencies lies in its integration with the prevalent management system, especially in terms of their appropriateness towards the directions of the organizational development process. In this context, the simulation, in accordance with our detailed opinion, manifests the following implementation pathway for organizational competencies:
• Identifying and agreeing on the key organizational competencies required for the purpose of competitive advantage;
• Creating a unique model for inter-disciplinary effecting and advancing the usage of the organizational competencies, in relation with the resource allocation according to the most valuable resource;
• Identifying the applicative change methods for fulfilling the sustainability criteria within the competitive advantage;
• Assessing the current and future potential of the achieved sustainable competitive advantage, through quantitative and qualitative criteria.

Obviously, the proposed implementation pathway focuses on an existing and future understanding of the organizational competencies, which demands an immense and integral detailing of the characteristics of the organizational competencies, as follows:

1. Tacitness;
2. Robustness;
3. Embeddedness; and

1. Tacitness relates to the need for avoiding its imitation, owing to the fact that tacit competencies are based on more intuitive knowledge that easily and fully cannot be articulated. In terms of the skills, it stipulates that the experience and the previous company results create the competitive advantage.

One of the most important characteristics of tacit competency is the fact that it is context specific and embodied in organizational routines, which form the basis for creating a specific training program. In this program, the dominant importance is placed on achieving an articulated competency, a term that develops a perspective for integration of knowledge and skills that is obvious, evident, vivid and publicly aware.

2. Robustness, as a characteristic for organizational competencies is connected to the insensitivity of the organization to every environmental change. The variety of modalities of the robustness starts from vulnerable and finishes with a total robust continuum. The first one are subject to value lost owing to the major environmental changes, especially those that are not under control of the organization. Therefore, its roots are placed in the general external environment, especially in the economical, technological, political, demographic, legal, international and other types of external changes. On the other hand, the second one leads to a value increases of the competencies, due to the extension of its durability.

The focal importance of the robustness lies in the necessity of avoiding the vulnerable types of changes, due to the fact that the process of unifying the external adaptation is highly connected with the internal integration. On the other hand, an organizational competency in cost containment manifests to be very robust, owing to its value for different environmental changes.

3. As an organizational competencies characteristic, embeddedness is dominantly focused on its potential for a proper and entire transfer to another organization and derives from competencies location within the organization.

The primary distinction of the organizational knowledge and skills implies that is placed in employees or physical systems like equipment, software programs, data basis etc., on one hand, and the managerial systems like reward structures and incentive techniques, as well as those encompassed in the organizational mission, vision and organizational culture, on the other hand. Both types bear different nature and potential for influence, in the range of mobile to embedded, whereas the first one are highly transferable and subject to imitation, regardless of the second one which are immobile and fairly hard to be imitated.

The main usability of this characteristic is paying proper attention to potential leaving the company of employees which possess enormous knowledge and skills to another, competent company and taking away with them these organizational competencies for competitive advantage.

4. The last, but contemporary increasingly important competency characteristic is consensus, dominantly managerial. It is manifested through an agreement, mostly by the managers, on the specific knowledge and skills that is valuable for a certain industry in creating sustainable competitive advantage. In other words, it is the common, shared belief and understanding of the most important knowledge and skills, varying in the range from total unanimity, as one extreme, to complete disagreement, as another consensus extreme.

Consensus is usually perceived as a desired tendency, not as an actual state, owing to the fact that it is concentrated, within the management hierarchy, in the top management, whereas at the same time, it becomes increasingly important in
the middle level management, individuals that interpret, transfer and further detail the ‘agreed organizational competencies’.

In order to increase its potential, consensus should be at first effected on the same managerial level, and at the same time should be connected with the tendencies that are stipulated with the process and model of organizational development.

In order to be sustainable, organizational competitive advantage should have a clear impact on the overall performance, and at the same time arouse an intensive commitment of all employees, especially of the middle managers, due to their position of double evaluation of the capacity of the determined knowledge and skills, not only for creating, but also for sustaining competitive advantage. Practical integration of both effects is done through numerous sustainable management methods, among which, as most influential ones, in our profound explorations, are the following:

- Workforce downsizing and
- Cultural diversity management.

Even though it has existed more than 3 decades, as a sustainable method that contributes to the competitive advantage, workforce downsizing has a dominant influence to increasing the organizational effectiveness, efficiency and organizational public awareness for a human treatment of the employees for gaining applicative knowledge and skills. It is of an utmost importance to stress what it is not, dominantly in terms that the potential overall workforce reduction is a consequence, not a source of, lacking competent knowledge and skills of the employees for the proposed level of competitiveness. At the same time, prior orientation of the downsizing should always focus on processes for competitive advantage, such as eliminating hierarchical levels, business process reengineering and redesigning, consolidating, eliminating non-functional units, overall reducing of the working hours, concentrating of the needed knowledge and skills on fewer highly qualified employees etc. Therefore, it must be connected with the employee reorientation approach, which in fact integrates the downsizing with the sustainable dimensions of the organizational redesign and systemic strategy.

Managing cultural diversity implies to the potential for competitive benefiting from the increasing global trends of different ethnic and gender diversity, which derives from the sustainable potential of linking the cultural diversity with the overall organizational competitiveness. It must be emphasized that the primary effect of managing cultural diversity has always been advanced social responsibility model, and within it, competitive advantage arises from the tendency of implementing external and internal cultural uniform treating of diverse manifestations. In order to form an integrated organizational benefit from managing cultural diversity, key managerial areas for sustainable competitive advantage are the following:

- costs,
- resource acquisition,
- marketing the competitiveness,
- creativity,
- problem solving, and
- organizational flexibility.

All of above managerial areas affect the sustainability of the intended business excellence model through clear distinction that the first 2 are inevitably value diverse and their direction of influence is from the external environment to the internal organizational segments, whereas the remaining 4 are value adding diverse areas, with an influencing direction from the internal to the external organizational environment.

2. Integrated management system for sustainable business excellence

In achieving the desired level of business excellence, it is crucial to interconnect the managerial style with the tendencies in the organizational development process. It means that the managerial style follows the orientation and depth of the intended organizational development, a process which lies on the systemic nature of application of behavioural knowledge and skills, accompanied by a proper application of empowerment concept for a profound usage. Actual behavioural simulation of needed organizational development interventions, as responses to solving organizational crises, can be determined on the following way:

- Development interventions in the individual behaviour aimed at meeting their objectives and accomplishing their assigned tasks – within this category are used competitive methods like team building, laboratory training (role playing, simulations and on-line learning), survey feedback, coaching, inter-group interventions and models of accompaniment like the very consultation process etc.
Techno-structural interventions that seek to reconcile considerations relative to structures and technologies, personal and intellectual accomplishments of individuals at work – this category of interventions integrates the following competitive techniques like collateral organizations, parallel learning systems, socio – technical systems, job enlargement and enrichment, semi – autonomous teams etc.

Interventions in human resource management which are aimed at developing skills, including models of leadership – this category of interventions includes various competitive practices, such as management by objectives, the system of promotion and rewards, career management etc.

Strategic development interventions that are based on open-system models in order for an organization to maintain dynamic links with the environment – this final category of interventions consists of various competitive techniques, such as organizational learning, development of networks and alliances, strategic usage of the organizational culture, top management planning system etc.

Each manager must be aware that, with regards to the characteristics of the organizational crises, the specific application of organizational development intervention is dependent on the competitive position of the organization within its industry. In this context, although traditional approaches to organizational development usually include individual problem solving and incremental socio – technical changes, as indicated in first 2 developmental interventions, modern approaches pay substantial attention to integrated human resource management and strategic usage of the organizational development process, as stipulated in the last 2 interventions for competitive advantage.

The creation of integrated management system consists of a competitive combination of above detailed management sustainability model criteria, including simultaneously qualitative, environmental and safety at work sustainable criteria. At the same time, this sustainable management system is the contemporary answer to the challenges for competitive advantage, like dynamic changes in the technological, economical and legal external segments, rising costs of training, lay-offs and accidents at work, state treatment of non applying the environmental regulatory standards, increasing pressure for an immediate profitable results compared to the needs for an organizational development etc. Therefore, what is evident is the emergence of various problems for continual improvement, among which, as most important, are the following ones:

- continuous lack of management and involvement of employees,
- functioning of half-dead systems, which manifests itself by work done by people for the benefit of systems, not by systems for the benefit of people,
- usage of too extensive, expanded and complex systems of documentation, and
- attitude to integrated management systems as if it were a marketing instrument (not an objective itself, i.e. obtaining a certificate), not as an instrument of improving organization’s management processes.

The majority of above detailed improvement problems for reaching the business excellence stage are efficiency oriented, meaning that the publicly transparent feature of any excellence is implementing qualitative change decisions towards a sustainable competitive advantage. In order to reach and further maintain the stage of competitiveness, the initial precondition for every organizational system is the integration of the management system with the content of each business excellence model, which is done through a proper application and combination of the following measures of sustainable development for competitive advantage:

1. **Policy measures** - implies to the process of embedding the principles of sustainable development within the companies policy statements, in order to express the governing elements of the mission, vision and strategy of the actual company. It is the prevalent method for enabling employees for a self-governed evaluation of achieved level of sustainability in all 3 detailed criteria;

2. Process improvements – varying in the range of sustainable improvements in the following segments:

   - **Manufacturing processes and service delivery** – simple adjustments for a more efficient usage of raw materials, energy and water savings, compliance
with the ecological standards, protection of the employees at work etc.,

- Management systems – a focal element of their integration – referring to positioning the integration of above detailed management sustainability models for the actual and future perspective of the business excellence model, and

- Stakeholder management – related to the indirect managerial method for transferring the expectation of the major stakeholders to the top managers, without threatening their influence and integrity in the eyes of all the employees, through various constructive techniques for integration of interests.

1. Product stewardship – as a concept which is directly linked to longer life of the products that are sold on their soundness, with a minimal environmental influence, on one hand, and the possibility to dissemble the products quickly and easily and their integral parts to be reused or recycled, on the other hand. A practical example of this kind of behaviour is the range of products of Xerox, which are completely subject to reuse, remanufacture or recycling.

Actual detailing of the benefits and the barriers for competitive integrated management system in function of sustainable business excellence would best be presented through the expertise of the following organizational developmental authors, on the following way:

Table 2 Barriers and benefits related with management systems integration

<table>
<thead>
<tr>
<th>Benefits of systems integration</th>
<th>Source</th>
<th>Barriers of systems integration</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in administration costs ensuring from improvement of internal coordination of actions Benefits connected with improvement of competitiveness Organization development towards integrated responsibility – 3 pillars of sustainable development</td>
<td>Jorgensen et al., 2006</td>
<td>Complexity of external management system-Lower efficiency of management Reluctance of employees Increase of management costs Waste of human resources Free exchange of information Increasing amount of paper work</td>
<td>Zeng et al., 2007</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Benefits of systems integration</th>
<th>Source</th>
<th>Barriers of systems integration</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation costs</td>
<td>Hanro, 2008</td>
<td>Lack of involvement of the highest management</td>
<td>Opposition of employees</td>
</tr>
<tr>
<td>Improvement of organizational image</td>
<td>Using holistic approach to management of business market Avoiding conflicts between systems Elimination of repetitions and minimization of bureaucracy More effective and efficient external and internal audits</td>
<td>PAS 99, 2006</td>
<td>Lack of knowledge among employees and management Knowledge of what we have and lack of knowledge what we need it for Lack of internal and external demand for systems</td>
</tr>
</tbody>
</table>

Source: Adapted according to Ejdys & Matuszak - Flejszman, 2010, pp. 211-212

The very construction of Business excellence model is, in fact, precise detailing and structuring according to their priority of various dimensions of competitive advantage, with a final objective of achieving the interdependence with the key managerial areas for sustainability. Therefore, various excellence models in business possess differences in number and influence of the components that form the sustainable competitive advantage.

The majority of the excellence models are based on quality based business frameworks which are dependent to ‘critical-to-success factors’ (CSF), a term which fundamentally refers to a very limited number of key managerial areas for sustainable competitive advantage in which their outstanding position, internally and externally, would result in a competitiveness that produces superior organizational performance.

The comparison of the advantages of the qualitative frameworks with the business excellence models would be conducted with Kanji Business Excellent Measurement System (KBEM), in order to enable reaching objective conclusions for their potential and interdependence of the constituting contents, in the following way:
It is evident that the KBEM functions by prior identification of a few vital organizational competences which have a major influence on the overall organizational performance, followed by their classification in accordance with the potential for managerial control, determining their interdependence and in the final stage, evaluating the progress in measuring the sustainable competitive advantage.

**Conclusion**

Nowadays, the importance of a proper managerial system for achieving and further development of a competitive advantage and the need for sustainability emerges as a result of the orientation for an organic treatment of the integrative segments in every enterprise, predominantly of their organizational vision and values, structures, processes and the human resources. Among numerous challenges of every prosperous manager, most crucial for the future competitive advantage of the enterprise arise the following managerial implications: the inability to predict their future, the inability to control their behavior and the inability to influence their future trajectory for survival and success.

The major characteristics of an existing or a future organizational crisis are the presence of potential threats, triggers – turning points and the idea of incubation, uncertainty about the resolution of a crisis and its after-effects, the urgent need to act, and potentially harmful impacts on individuals, organization or society as a whole.


In creating an organizational change framework, a prior attention is placed on stimulating planning and implementing of changes required for sustainability, initially through the concept of empowerment. Having in mind that the overall working empowerment is usually composed of behavioural, verbal and outcome empowerment, the dominant influence towards the organizational change framework possesses the behavioural one.

In essence, organizational competencies integrate a unique combination of knowledge and applicative skills, with a fundamental aim of guiding the action change programs for competitive advantage. They enable employees to better understand and implement the organizational knowledge and skills on a group/team level, as well as on an individual level. In order to fulfill the intention of a distinguished competitive advantage, each organizational competency must be valuable, rare and impossible (process complicated or costly) for imitation.

Obviously, the proposed implementation pathway focuses on an existing and future understanding of the organizational competencies, which demands an immense and integral detailing of the characteristics of the organizational competencies - tacitness, robustness, embeddedness and consensus. In order to form an integrated organizational benefit from managing cultural diversity, key managerial areas for sustainable competitive advantage are costs, resource acquisition, marketing the competitiveness, creativity, problem solving and organizational flexibility.

In achieving the desired level of business excellence, it is crucial to interconnect the managerial style with the tendencies in the organizational development process. It means that the managerial style follows the orientation and depth of the intended organizational development, a process which lies on the systemic nature of application of behavioral knowledge and skills, accompanied by a proper application of empowerment concept for a profound usage.

The creation of Integrated management system consists of a competitive combination of above detailed management sustainability model criteria,

<table>
<thead>
<tr>
<th>Table 3</th>
<th>Business excellence models’ content comparison</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EFQM</strong></td>
<td>Leadership planning, Customer focus, Process management, Business results</td>
</tr>
<tr>
<td><strong>MBNQA</strong></td>
<td>Leadership, Customer satisfaction, Teamwork, Prevention, Business excellence</td>
</tr>
<tr>
<td><strong>KBEM</strong></td>
<td>Leadership (prime), delight the customer, external and internal, people based, people make quality, prevention, business excellence</td>
</tr>
</tbody>
</table>

*Source: Kanji, 2005, p.1073*
including simultaneously qualitative, environmental and safety at work sustainable criteria. At the same time, sustainable management system is the contemporary answer to the challenges for competitive advantage, like dynamic changes in the technological, economical and legal external segments, rising costs of training, lay-offs and accidents at work, state treatment of non-adherence to the environmental regulatory standards, increasing pressure for an immediate profitable results compared to the needs for an organizational development etc.

The very construction of Business excellence model is, in fact, precise detailing and structuring according to their priority of various dimensions of competitive advantage, with a final objective of achieving the interdependence with the key managerial areas for sustainability. Therefore, various excellence models in business possess differences in number and influence of the components that form the sustainable competitive advantage.

The majority of the excellence models are based on quality based business frameworks which are dependent from ‘critical-to-success factors’ (CSF), a term which fundamentally refers to a very limited number of key managerial areas for sustainable competitive advantage in which their outstanding position, internally and externally would result in a competitiveness that produces superior organizational performance. It is evident that the KBEM functions by prior identification of a few vital organizational competences which have a major influence on the overall organizational performance, followed by their classification in accordance with the potential for managerial control, determining their interdependence, and in the final stage, evaluating the progress in measuring the sustainable competitive advantage.

References

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Value-based Pricing in Austrian Medium-sized Companies

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Abstract

This article deals with the topic of value-based pricing and its role in medium-sized Austrian companies. The topic is interesting, as pricing is known to be the variable with the most influence on financial success or failure in this highly competitive business environment. The effects of choosing an adequate pricing strategy can, or most certainly will have a distinct impact on competitiveness and contribute to a company’s long-term success.

In recent years, growing importance has been placed on term value as the fundamental determination affecting customer satisfaction and has been increasingly considered in the discipline of pricing. Customer value pricing does not rely heavily on costs incurred, competitors’ prices or the product’s historical price. It rather reveals the fact, that each customer evaluates products or services differently and attaches either more or less importance or value to them, which results in different degrees of willingness to pay. But still this method is a prerequisite for the other methods (cost and competitive focus) as well and therefore it can be seen as the only integrated pricing approach.

In order to learn the details of the Austrian pricing situation in medium-sized B2B companies a quantitative study with 180 respondents was compiled. The study’s aim was to find out how firms using the value-based approach differ from those, using conventional pricing methods in terms of profitability, customer relationship, customer satisfaction and so forth.

The export rate of Austrian-based companies is in general higher than 50%; value-based pricing (and the integrated approach) is even more important in an interconnected world than in the local market.

Keywords

Value-based pricing, pricing methods, pricing strategy, pricing approach, integrated price process.

Introduction

Nowadays companies’ long-term success is mostly dependent on the right approach to determining pricing strategy. The companies’ failure or significant development also relies mostly on prices, because price has the highest impact on profitability. Furthermore, the right strategy and the integration of the pricing process in the entire company influences the stable position of the company in the global market. Moreover, a clearly structured and integrated price process affects the competition in the market and a company’s competitiveness. Various scientific literature articles as well as researches show that, when considering all pricing methods, value-based pricing is the most successful and reliable approach for the long-term success of a company. (Baker, 2011; Hinterhuber, 2008; Michael & Pfaffli, 2009; Monroe, 2003)

There are several reasons, however, why companies do not implement value-based approaches. On one hand it is enormously difficult to identify the value that customers perceive, because of the different perspective of every individual. On the other hand there are easier ways to set a price, e.g. cost plus pricing strategy and measuring competi-
tors’ prices. Yet only the value-based pricing approach integrates all important elements (cost and competitive situation and value for the customer). (Hinterhuber, 2003; Brennan, Canning & McDowell, 2011)

Three key questions will be explored in this article:

- To what extent is the value-based pricing approach in Austrian medium-sized companies established and employed as a prominent practice?
- What are the main obstacles that hinder the implementation of the value-based pricing approach in medium-sized companies in Austria?
- Why does it make sense to apply the value-based approach in medium-sized companies in the long run?

The article is organized as follows: First of all the theoretical basis of the topic is described in order to foster better understanding of the value-based method, which is a relatively new theme in the scientific literature. Secondly, the practical side of the topic is explored, properly addressing the actual business situation in Austria. The method used for research is quantitative, and focuses on the description of comparisons and interpretations as well as the analysis of the outcomes.

1. Theoretical background

In order to better understand the ideas developed in this article, the authors explain the theoretical aspects through representing several traditional approaches regarding price setting in literature on one hand, and on the other the cost-based and competition-oriented approaches. The value-based pricing approach is more complex and complicated, which is why the description is divided into five parts: definition of value, value-based pricing as a driver for sustainable company value through customer satisfaction, a model for implementation of value-based pricing, advantages of the value-based pricing approach and obstacles for implementation of value-based pricing.

A brief description of the traditional methods to pricing will show its usual application use and understanding of the companies and the perception of customers in the current business environment. Pricing approaches include a certain scope of actions, which are defined as between the price floor (where no profits are possible below this price) and the price ceiling (where there is no demand above this price). In reference to the above mentioned possible range of prices, several conventional methods for pricing exist. Value-based pricing can be seen as the integration of different price methods, because cost-based pricing and competitive pricing are the basis for value-based pricing with this method.

1.1. Cost-based approaches to pricing

Price calculations based on the expenses for the production of a given product constitute the so-called cost-based approaches to pricing. There are different approaches that will be briefly examined:

1.1.1. Cost-plus

This approach is mostly applied in less competitive or non-competitive fields of business. These methods are estimated to be the least risky strategy as the main focus lies in the coverage of the average total costs plus calculated profit. (Shy, 2008)

Formula: \[ \text{target selling price} = \text{Variable Costs} + \left( \frac{\text{Fix Costs}}{\text{sales volume}} \right) + \text{markup} \]

1.1.2. Target costing

Unlike the above mentioned method target costing is applied in highly competitive markets where market price is determined according to the features of the offering to which a desired profit is added. (Clifton, Bird, Albano & Townsend, 2004)

Formula: \[ \text{target cost} = \text{market price} - \text{target profit} \]

1.1.3. Break-even

Break-even pricing is another conventional pricing method which displays the interrelationship between total costs and total revenue with dependence on sales volumes. The main goal of this pricing method is a desired return on the invest capital which should be achieved.

Formula: \[ \text{target return price} = \text{unit cost} + \left( \frac{\text{(target return} \times \text{invested capital)}}{\text{unit sales}} \right) \]

One of the advantages of the conventional cost-based pricing methods is that it is relatively simple to calculate a price, because this is a quite rational and mathematical approach. Furthermore, in some fields of business it can ensure relative price stability and minimize the destructive price influence of the competition. (Capon & Hulbert, 2012).
Inevitably the conventional cost-based pricing methods have some limitations as well. For example these approaches do not take into consideration any noneconomic elements related to the excess of the use value over the cash value of a product – an indicator of great importance to the client. (Macdivitt & Wilkonson, 2012)

In both chapters the cost-base pricing approach and competition-oriented pricing, only the main methods are shown; it would expand the frame of this article to discuss all methods in both categories.

1.2. Competition oriented pricing
The price calculations of the competition-oriented pricing method are based on the prices of competing companies in the market. This method enjoys great popularity in markets where customers are extremely sensitive to prices.

1.2.1. Going-rate pricing
This is the customer’s perception of the price of a company which is assessed by the customer regarding different factors such as performance plus features, brand reputation, etc., and after a certain evaluation the client chooses a particular product on the market. This approach saves time and costs and is easy to apply. (Macdivitt & Wilkonson, 2012)

1.2.2. Competitive bidding (reversed auction)
A reverse auction is a type of auction in which the roles of buyer and seller are reversed. A buyer presents a contract for bidding (by either using specialized software or through an online marketplace). Multiple sellers are then able to make bids on the contract. As the auction progresses, the price decreases as sellers compete to underbid their competitors while still meeting all of the specifications of the original contract. (Pandey, 2007)

The limitations of the competitor-based method can be seen due to the fact that just being better than one’s competitors (differentiation) does not automatically mean that the company will deliver value to its customers.

The method of value-based pricing will be introduced in detail in the following sections, because the authors strongly believe that this is the only pricing concept that allows medium-sized companies to sustain their success in a global market.

1.3. Value-based pricing approach
The value-based pricing approach is considered to be the method with the highest profit potential, regarding long-term relationship orientation and the created use value of a given product rather than just good quality.

1.3.1. Definition of the value
With regard to all the descriptions in the scientific literature of this term, the basic definition of value represents all the benefits that the customer receives when purchasing a product or service and their features. The main problem of the value lies in its intangible nature and unconscious acceptance. Therefore a company must consider the efforts needed for discovering the customer’s perceptions of the received benefits. (Meehan, Simonetto, Montan, & Goodin, 2011).

Another way of calculating the value is by comparing benefits to costs (total costs or investments). Furthermore, value-based pricing should be considered both from the viewpoint of the company itself and its competitors (Anderson, Kumar, & Narus, 2007):

\[(\text{Value}_f - \text{Price}_f) > (\text{Value}_a - \text{Price}_a)\]

1.3.2. Building a value proposition and a model for implementation of value-based pricing
Building value proposition must firstly be considered by composing a differentiation list of features and elements of the products or services provided, and their distinctions must be perceived from the customer’s perspective, and from that of the company. Secondly, it is necessary to compare the value-based offerings and the differences between other next best alternatives on the market also regarding their prices. After these two steps have been completed, the value should be expressed financially and this approach should be implemented throughout the whole company. (Anderson, Kumar, & Narus, 2007).

Implementation steps include at the outset, the identification of customer needs, which should be conducted through direct contact with the company’s regular clients, applying “active listening” and asking the right questions of the right people. During the second step prices should be assigned to the defined value offerings. The third step represents the development of different pricing options for the customer, i.e. the company has to provide the best solution, which has to match the
customer’s specific requirements. In addition, the company must find the right approach to present the offer in order to facilitate negotiations so that good results can be achieved. Moreover, after the purchasing phase ended, the customer’s satisfaction should be determined and new improvements should be continually applied. (Baker, 2011).

Based on these arguments value-based pricing also creates long-term success of a company – as a driver for sustainable company value through customer satisfaction. Recent studies (Matzler & Stahl, 2000; Rappaport, 1998) show that customer satisfaction is the core driver for company’s success in the market; success is defined in the study of Rappaport as ROI, while Matzler and Stahl defines long-term success as related to cash flow.

1.3.3. Advantages of the value-based pricing method

The main advantage of the value-based pricing method compared to other pricing methods is that this approach addresses customer’s needs, whereas the others focus mostly on competition and cost-cutting. Another advantage, as previously mentioned, is the focus on the long-term relationship between the customer and the company, which results in higher profitability for the company. Moreover, this long-term relationship requires profound knowledge of the customer that will result in providing the right solutions and offers in accordance with their needs. (Baker, 2009).

1.3.4. Obstacles to the implementation of the value-based pricing method

The survey conducted represents the main impediments for companies regarding the implementation of the value-based approach. Two key points are stated: adapting the corporate structure to value-based pricing and the high expenses for implementing the method. Furthermore, a very serious roadblock happened to be the beginning of the process and more precisely the assessment of value. What is more a problem frequently occurs in connection with the conforming of the value to the customer, which seems to be related to the differentiation of the product/service and to the high competitiveness of the market. Thus the customer’s attention is difficult to assess. Moreover, many other difficulties could occur, as for example the lack of sales force or the lack of senior management’s support for applying such a method in a company structure.

1.3.5. Integrated approach

The only integrated approach in price management is seen as the value-added price approach. Hinterhuber (2003) recommends using the value-based method, the cost + and the competition method in order to define the price strategy. For efficient price management it is necessary to gain insights into the following points:

- company’s cost analysis,
- competitor analysis (understanding trends, strategies and product offerings),
- value analysis of the customer.

Taking only the cost situation of a company into consideration excludes the competition situation and customer needs. In addition, focusing only on differentiation does not mean that per se value is delivered to the customer. The only method see the one before, prerequisite the other 2 pricing approaches is the value based pricing method – therefore it can be seen as the only integrated pricing approach.

2. Research design

The empirical part of the article consists of examination of the pricing approaches in Austria, particularly in medium-sized companies. (According to the Austrian Economic Chamber of Trade, Commerce and Industry, the parameters of such companies are as follows: number of employees from 50 to 249, turnover $\leq 50m \text{ } \varepsilon$ and total assets $\leq 43m \text{ } \varepsilon$).

The main goal of the research is to find out the extent to which Austrian companies have developed different pricing approaches and why they have chosen them. The purpose of the research is to find more information about the topic and to analyze the data gathered about it.

The survey was conducted as an online questionnaire. The research covers companies operating in the sectors of commerce (18.3% of responses) - industry (30%), trade (16.7%) and service (30.6%). “The qualified contact person” for completing the surveys is defined as a person who occupies a managerial position related to pricing knowledge and tasks, namely: CEO (53%), Head of Sales Department (18%), Head of Marketing Department (8%), marketing department personnel, business unit manager, pricing managers, sales department personnel, key account manager, etc. The total number of responses is 224, however several of them (44) were incorrectly completed or not completed by an appropriate person.
Of 180 responses, 71% were from B2B companies and 29% from B2C companies.

3. Main findings

Several questions in the survey were asked in order to find out the current situation of Austrian based SME’s regarding their pricing approach. The following research questions were defined:

- “To what extent is the value-based pricing approach established and used as a prominent practice in medium-sized companies in Austria?”
- “What are the obstacles that hinder the implementation of the value-based method in medium-sized companies in Austria?”
- “Why does it make sense to apply the value-based pricing approach in medium-sized Austrian companies in the long run?”

“To what extent is the value-based pricing approach established and used as a prominent practice in medium-sized companies in Austria?”

The basic impression about value-based pricing communicated by existing literature and previous studies is that this approach is enjoying growing recognition and importance but still remains a method applied by only a minority of companies (Hinterhuber, 2008; Woodside, Golhetto, & Gibbert, 2008; Cavusgil, Chan, & Zhang, 2003). Findings from the analysis of information gathered through the survey support this statement also for Austrian medium-sized companies. Only 13% of the companies responding to the survey have already developed and applied value-based approaches as their pricing strategies. The majority of companies still use the cost + method.

The second research question was formulated as: “What are the obstacles that hinder the implementation of the value-based method in medium-sized companies in Austria?”

The most frequently named reason, and therefore the obstacle which was identified as the main cause for why companies of the investigated segment in this study struggle to implement value-based pricing, was the highly competitive situation in the market (price wars). This obstacle was mentioned by 37.7% of respondents. The second most given reason for not using value-pricing, indicated by 34.4% of survey participants, was that the nature and composition of a company’s product or service itself just makes it difficult to differentiate from the competition and provide a unique and differentiated value that could justify charging a premium. The third reasons why companies do not apply the value-based approach was difficulty of assessing the values of individual customers.

The answer to the last research question “Why does it make sense to apply the value-based pricing approach in medium-sized Austrian companies in the long run?” lies in the fact that this method guarantees the highest profitability amongst all others if it is successfully implemented.

Figure 3 shows the profit situation of Austrian SME’s in 2012. The majority of companies had a profit margin of between 0-10%.
Around 64% of the companies in the study had a rather low profit margin of between 0 -10% and the second largest category (around 27%) had a margin between 11-30%.

The picture looks quite different when we take the pricing method into consideration. In Figure 4 we can see that the categories 0-10% and 11-30% are equal for companies using the added - value price method and the upper categories higher than 31% are significantly stronger than with traditional methods. Moreover, not a single company (using the value-based method) was found in the negative category.

The reputation of the value-based approach for tapping higher profits is thus underscored by the results of this study than other approaches to pricing.

Another reason mentioned in existing literature of why it makes sense to incorporate value-based pricing in a company is related to the high level of communication required and a company’s necessity to intensively study its customers’ requirements and closely focus on their ultimate needs. This extremely painstaking and intensive communication and examination of the customer might even provide the firm with the ability to exceed the client’s expectations, leading to highly profitable long term relationships with a positive outcome for all participants (win-win) and higher customer satisfaction. (Baker, 2009; Macdivitt & Wilkinson, 2012; Anderson, Kumar, & Narus, 2007)

In addition companies participating in the survey, which was conducted in the course on an empirical study, appeared to more intensively interact and communicate with their customers and also achieved a higher level of overall customer satisfaction.

Especially with regards to the observed frequencies of communication with customers in a B2B environment, the differences between “value pricers” and “conventional pricers” were especially significant. Thus, information about the advantageous effect of value-based pricing regarding customer relationships and customer satisfaction provided in existing literature, appeared to also be valid for the investigated segment of this study.

An additional question raised in the survey was, whether companies that applied the value-based pricing approach are more successful in tapping the full up-selling and cross-selling approach. As can be seen from the results of the conducted online survey, it is not sufficient to confirm in full the positive effect of the value-based pricing approach and to reveal up-selling and cross-selling potential from a market perspective. However, the value-based pricing method is in its infancy and hence very difficult and complex to explore, and therefore further in-depth research should be conducted so that detailed and more precise conclusions may be drawn.

4. Limitation of the research

In the course of the conducting research some limitations affecting the results were detected due

Figure 3  Profit situation of Austrian SME’s  
Source: Authors

Figure 4  Comparison of profit margin for companies using traditional vs. value-based pricing  
Source: Authors

Figure 5  Reputation of the companies using conventional vs. value based approach  
Source: Authors
to the fact that the value-based pricing approach is a relatively new topic in the scientific literature and is in its infancy as far as the implementation of the method in companies is concerned. It is neither fully perceived nor widely applied yet.

In the process of analyzing the results of the online survey it became clear that some of the companies have not entirely comprehended the meaning of “value-based pricing” itself, hence discrepancies occurred among the answers of the different sections of the questionnaire.

Last but not least, the authors would like to mention that data gathered by surveying actual customers of a given company is more likely to be accurate and to authentically represent the level of the customer’s satisfaction and a company’s reputation from a market perspective. Because of some obstacles the study was not conducted in the above mentioned manner. Therefore, testing concerning the correlation between a chosen pricing method and the level of the customer’s satisfaction or the company’s reputation from a market perspective should be considered crucially important.

5. Further research
The outcomes and the results of this research are estimated as insufficient and limited although some interesting facts about the present situation in medium-sized companies in Austria became evident in regard to the penetration and the popularity of the customer oriented approaches. That is why the authors suggest supplementary research in this regard is convenient for more thorough study of the value-based pricing method.

Furthermore, one of the most important issues – whether companies applying customer oriented approaches achieved a better reputation as far as market perspective is concerned or reached a higher level of customer satisfaction – could be only partially answered with the methods used in this study. ☞

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Mergers, Acquisitions and Evaluation of Investment Banks

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Abstract
Bank mergers can be defined as an activity of proprietary integration of two or more banks (of approximately the same size) in order to create a new bank. Acquisition can be defined as an activity where one bank acquires another bank (or several banks), and continues its operations under its own name. Every merger and acquisition is accompanied by synergistic effect, and can be friendly and hostile.

Measures for preventing mergers and acquisitions of banks include: (1) “poison pills”, (2) change in capitalisation, (3) “golden parachute”, (4) changes in bank statutes, (5) “greenmail”, (6) “white knight”, (7) capital structure changes, etc.

The processes of merger and acquisition comprise three stages: (1) strategic preparation stage, (2) negotiations and research stage, and (3) finalisation and integration stage. Bank evaluation refers to the assessment of a banking franchise, which includes a larger number of individual features of a bank. Bank evaluation implies familiarization with the model of “free cash flow” (i.e. flow of monetary assets of the bank’s shareholders).

Keywords
Merger, acquisition, bank evaluation, "golden parachute", "greenmail", merger, "poison pill", strategic preparation, "white knight".

Introduction
Bank mergers can be defined as an activity of proprietary integration of two or more banks (of approximately the same size) in order to create a new bank. In the process of merger, the predecessor banks lose their identities, so that the newly formed bank acquires a new name and new business philosophy. Acquisition can be defined as an activity where one bank acquires another bank (or several banks), and continues its operations under its own old name. The usual practice is that a financially “stronger” bank acquires a financially “weaker” bank. The bank merger and acquisition procedures also include analysing the banks’ positions, so as to review the effect of merger or acquisition on the value of the future bank. Analyses related to the bank performance should demonstrate the presence of a greater value of the future bank than the sum of values of predecessor bank before the merger or acquisition.

Each bank merger and acquisition is usually accompanied by synergistic effect, expressed as increased efficiency in the business operations of the newly formed bank (Vb1, Vb2 = Vb1 + Vb2). The synergistic effect is usually manifested as (Vunjak, Ćurčić, & Kovačević, 2008a, p. 82):

1. increased economies of scale,
2. improved creditworthiness,
3. the bank’s entry into new markets,
4. a more cost-effective banking network,
5. increased credit capacity,
6. higher-quality bank management,
7. more efficient application of IT technologies in banks, and
8. diversification of operations and decreased operating risks.

Bank mergers and acquisitions are an inevitable reality in countries with developed economies, aimed at eliminating low-performing banks.
past period, the merger and acquisition periods directly influenced the decrease in the number of banks, and increase in their average asset levels. Banking practices of developed countries show that three models of bank merger and acquisition were predominant in the second half of the 20th century.

The first model started from merging two or more “smaller” banks into a “larger” one. In such cases, banks were equal in the decision making process when forming a new bank structure. The only fact that counted is the larger volume of invested assets, receivables and liabilities of each individual bank.

The second model started from bank acquisition so that financially strong banks acquired financially “weak” banks. Usually in such an acquisition process, the earlier independent banks became subsidiaries or branches of the financial strong bank. For instance, such processes were present on the national financial market as well, so that banks such as Kreditna Banka in Subotica, Banatska Banka in Zrenjanin, Somborska Banka in Sombor, and Sremska Banka in Sremska Mitrovica were all acquired and became Main Branches of Vojvodanska Banka in Novi Sad.

The third model started from merger or acquisition of two financially strong banks, in order to create an enormous bank whose operations would cover not only national, but also the international banking market. A separate place in the process of bank merger and acquisition belong to investment banks, which were intermediaries, or leaders in the above mentioned banking activities.

1. The determinants of bank merger and acquisition

The process of intensive bank mergers and acquisitions in the late 20th century was aimed at: (1) achieving a higher volume of operation, (2) increase in the range of financial products and services, (3) conquering new financial markets, and (4) repositioning the banks by establishing long-term development strategy. Characteristically, banks reduce fixed operating costs in this period owing to mergers and acquisition process. Fixed costs were reduced by: reduction in the number of branches, use of online technologies, cost-cutting on the market research level, marketing activities, innovative procedures etc. Due to the presence of increasing competition on the financial market, a significant number of “weak” banks saw the exit and survival opportunity in merging and acquiring financially strong banks. The new owners introduced new management teams, who strived to provide higher-quality operations and higher profitability of those banks.

When making the decision on whether to apply the internal growth strategy (expanding their own banking network) or to apply the option of buying (acquiring) other smaller banks, profitable banks usually opted for acquisition. The banks deemed the internal growth strategy too costly, and believed that it was possible to put the acquired profitable bank, with its network of branches and a good client basis, in the function of their increased profitability within a short time.

Mergers and acquisitions brought about the creation of the so-called mega-banks, ready to get involved in the global competition of the worldwide financial market. Mega banks tended to acquire banks located in geographically distant areas, so as to acquire new areas for their business activities. In certain cases, bank merger operations become the subjective factor of the bank’s management team. Actually, the bank’s management team often strives to achieve greater personal prestige with the growth of the bank’s market position, which is possible by carrying out a bank merger.

A bank acquisition can be (1) voluntary (friendly) or (2) forced (hostile). A voluntary bank acquisition is conducted in coordination with the management and owners of the target bank. This procedure implies that the acquiring bank sends the target bank’s management a takeover bid. If the target bank is interested in acquisition, the next step is direct arrangements between the interested subjects. The negotiations are usually confidential, so that it is forbidden to disclose any data. Such a form of information protection is essential, as the acquirer carries out a detailed analysis of the target bank and possesses a large amount of information related to its operations. The acquiring bank specially analyses the financial status of the bank they want to take over, analysing its positions on the financial market, the organisational network of branches, the development degree of the banking products and services, and the bank’s human resources. When the acquiring bank takes over the ownership of the target bank, the shareholders of the target bank are paid a price (whether in cash or the acquirer’s shares), which is, in most cases 30% to 50% above the market price of the target bank’s share market price. Voluntary acquisition is usually accepted by the target bank if they establish that there is no possibility
for its further independent survival on the financial market.

An involuntary bank acquisition occurs in cases when the target bank does not accept the acquiring bank’s proposal. The target bank still wants to maintain its independence, and applies various strategies to defend itself from the acquisition. However, the acquiring bank first tends to purchase the shares of the target bank in secret, so as to have the majority share. After this, the acquiring bank notifies the shareholders of the target bank that it intends to buy their shares. If the target bank’s shareholders are interested in selling their shares, the acquiring bank announces a public bid for the purchase of the shares of the target bank. The bid is announced in public media, stating the market share of shares (usually somewhat higher than the nominal value), and the deadlines by which the target bank’s shareholders can declare whether they accept the offer or not. Such a way of purchasing the target bank’s shares excludes negotiations between the target bank’s and the acquiring bank’s managements.

In case of the hostile takeover bid, the acquiring bank often uses the following strategy:

1. They send a public offer to the target bank’s shareholders for the purchase of the bank’s shares;
2. They opt for confidential purchase of the target bank’s shares by the acquiring bank;
3. They opt for competition between the shareholders and acquirer’s representative (the acquirer attempts to secure the majority of votes through the small shareholders’ representatives);
4. They send a takeover bid (to the target bank in order to merge it with the acquiring bank);
5. They choose the so called bear hug method (the acquiring bank sends the target bank’s management a takeover bid and expects their fast response.

The target bank usually tries to repel the acquiring bank’s attacks, by taking a range of measures often referred to as “shark repellents”. The target bank’s defence technique is a very complex business. In the practice of developed countries, the term “defence” implies the application of preventive and active measures. Preventive measures are applied so as to reduce the probability of taking over the target bank. Active measures are applied in response to initiated takeover of the target bank.

The target banks’ preventive measures refer to (Vunjak, Ćurčić, & Kovačević, 2008a, p. 85):

1. “Poison pill” means that, in case of takeover bid, the target bank issues new shares to the bank’s existing shareholders. These shares are called poison pill shares – in the form of preference voting shares. This measure of bank defence also includes issue of debt securities, so as to increase the target bank’s debt to equity ratio. As securities guarantee to the owners the possibility of conversion into other securities, or selling at more favourable market price, the bank takeover becomes less appealing and too costly for the acquiring bank.

2. Change in capitalisation means issuing various types of shares. A number of shares have a superior vote, and those shares are mostly received by majority holders and managers of the target bank. Owing to the increased number of shares and the need to buy the additional shares, the acquiring bank may give up the purchase of the target bank. These types of shares have a somewhat lower dividend, as they give the right of a larger number of votes to its shareholders.

3. “Golden parachute” means that the employees of the target bank make contracts for large premiums should the takeover occur. This means that the acquiring bank would be liable to pay increased premiums. This clause may lower the attractiveness of taking over the target bank.

4. Changes in the bank statute may result in the target bank being less attractive for acquisition process. Usually the protection of the target bank includes rotation of the Board of Directors (1/3 of the members are changed every year), which makes the communication between the target bank’s Board of Directors and the acquiring bank. Very often the target bank defines the minimum acceptable price in case of acquisition, i.e. need for majority of the shareholder votes (up to 90%) to take over the target bank.

The target bank’s active measures include:

1. “Greenmailing”, that is, the target bank’s offer to buy shares from the owners and payment of high premiums to shareholders, in exchange for a promise that they will not initiate the process of taking over the control of the target bank. This is a way of purchasing the target bank’s majority bank by the acquiring bank.

2. Agreement on putting the purchase of securities on hold, starting from the fact that the acquiring bank will not increase its property share in
the target bank by issuing new shares. This agreement limits the acquiring bank in the development sector, so that the acquisition becomes insufficiently interesting for the bank in question.

(3) Changes in the target bank’s capital structure through new debt, restructuring by recapitalisation, issue of new securities, purchase of its own shares, paying high dividend in order to reduce the amount of cash, etc. The target bank thus becomes less attractive for takeover.

(4) Pac man defence means that the target bank attacks its attacker by making a bid to buy the acquiring bank’s shares. This defence strategy is the most extreme option, which can produce results in terms of giving up or disputing the bank acquisition process.

(5) “White knight”, or finding a saviour, usually another friendly bank which pays a higher market price for the shares in order to take over the target bank, where this takeover may be temporary. In the banking jargon, the White Night defends the target bank from the Black Night. The saviour can be the target bank’s management, if they buy the shares from the owners of the target bank’s shares.

(6) Litigation means initiating and leading court proceedings in which the target bank accuses the acquiring bank of the intention of illegal purchase of the majority of its share capital.

A special place in the merger and acquisition processes belongs to investment banks. An investment bank’s client can be both the acquiring and the target bank. If the client is the acquiring bank, then the investment bank helps the client to choose an offensive strategy and take over the target bank. If the client is the target bank, then the investment bank helps the client to make the best deal or “defend” the target bank in the best possible way. An investment bank’s services are a necessity in the merger and acquisition. As they can serve the purpose of:

(1) finding candidates for mergers and acquisitions,
(2) counsellors to acquiring or target banks,
(3) bridge financing the clients until they find other financing sources,
(4) analysis of the target banks or acquiring banks,
(5) establishing the target bank’s value,
(6) mediating in negotiations between the clients, or
(7) helping the target banks to defend themselves from the acquiring banks.

The investment bank is entitled to remuneration in the amount of its participation in the merger and acquisition process. The remuneration can also be paid for counselling services, interest on borrowed assets, assistance in the sale of the bank, etc. Remuneration to investment banks is usually paid as commission and represents a certain percentage of the target bank’s sales value. In developed market economies, investment banks establish merger and acquisition departments, as well as arbitration sectors, which buy shares of attractive target banks. Based on the growth in prices of target banks, investment banks may earn profit by selling these shares.

2. Bank merger and acquisition procedure

Bank mergers and acquisitions are regarded as banking operations of high complexity, as they require longer time periods and high level of effort from the buyers and sellers of these banks. A successful bank merger or acquisition includes the analysis of the operation from the business, legal, organisational, accounting financial and tax aspects. The theoretical and practical experience has shown that the merger and acquisition process includes three stages (Vunjak, 2013, p. 87):
(1) the theoretical preparation stage,
(2) the negotiation and research stage, and
(3) the finalisation and integration stage.

The first stage encompasses the stage of the bank’s long-term goals. In this preparatory phase, it is necessary to (1) define the bank’s strategic plan (set the bank’s goals for a period of 3 to 5 years), (2) define a team for bank merger and acquisition (select the staff who will run the key banking operations), (3) define the merger and acquisition plan (determine the timeline, the transaction structure, the negotiating strategy, financial and fiscal instruments), (4) define the criteria for choosing the candidate bank (size, location, credit portfolio quality, assets and liabilities structure, amount of capital, and the bank’s market position), (5) identify the candidate bank (select the best bank from the shortlisted candidates), (6) identify the candidate bank (that is, the legal, organisational, financial, accounting and human resource aspect of the candidate bank), (7) define the preliminary evaluation of the candidate bank and the financial feasibility study (establish the bank’s value, establish the costs of the merger and acquisition).

The second stage includes activities of negotiation of the bank management team’s negotiation strategy (open or closed strategy, offensive or defensive strategy), establish contacts with the candidate bank (leading preliminary talks on the bank merger or acquisition procedure), (3) define the letter of intent (the letter is devised by the bank’s management team and sent to potential candidates for merger or acquisition), (4) carry out a subtle analysis of the candidate bank’s performance and value (analysing the bank’s individual performance, defining the bank’s real market value etc).

The third stage comprises the process of finalisation and integration of the candidate bank for merger or acquisition. What is characteristic of this phase is that all the analytical questions are verified, and it is possible to move on to the finalisation of the fusion or acquisition procedure, and the integration of the candidate bank. At this stage, it is necessary to: (1) define the finalisation of the contract (prepare the contractual terms of merger or acquisition); (2) obtain the approval of regulators and shareholders (acceptance of contractual terms by the national regulatory bodies and the shareholders of the bank that is in the merger of acquisition process); define a summary final overviews (a brief overviews of the main elements related to the merger or acquisition procedure), finalise the transactions (more specifically, carry out the necessary transactions in the merger or acquisition procedure); and (5) integrate the bank (finally merge the banks, forming a new bank, or integrating the bank which is in the acquisition procedure).

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Banks’ business activities in the merger and acquisition process</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buyer</strong></td>
<td><strong>Bank merger and acquisition process</strong></td>
</tr>
<tr>
<td>[Diagram showing stages and activities]</td>
<td></td>
</tr>
<tr>
<td><strong>Strategic preparation stage</strong></td>
<td>+ clarifies the business plan</td>
</tr>
<tr>
<td></td>
<td>+ forms the M&amp;A team</td>
</tr>
<tr>
<td></td>
<td>+ sets the M&amp;A plan</td>
</tr>
<tr>
<td></td>
<td>+ sets the target criteria</td>
</tr>
<tr>
<td></td>
<td>+ identifies the candidates</td>
</tr>
<tr>
<td></td>
<td>+ analyses the goals</td>
</tr>
<tr>
<td></td>
<td>+ ranks the targets</td>
</tr>
<tr>
<td><strong>Negotiation and research stage</strong></td>
<td>+ finalises the negotiation strategy</td>
</tr>
<tr>
<td></td>
<td>+ contacts the targets</td>
</tr>
<tr>
<td></td>
<td>+ conducts preliminary talks</td>
</tr>
<tr>
<td></td>
<td>+ writes a letter of intent</td>
</tr>
<tr>
<td></td>
<td>+ verifies the bank’s value</td>
</tr>
<tr>
<td><strong>Finalisation and integration stage</strong></td>
<td>+ sets the final transaction(s)</td>
</tr>
<tr>
<td></td>
<td>+ secures the approval</td>
</tr>
<tr>
<td></td>
<td>+ finalises the financing</td>
</tr>
<tr>
<td></td>
<td>+ completes the transactions</td>
</tr>
<tr>
<td></td>
<td>+ integrates the entity, i.e., the bank</td>
</tr>
<tr>
<td><strong>Source:</strong> Curič, 2003</td>
<td></td>
</tr>
</tbody>
</table>

Mergers and acquisitions are banking operations of recent date, are extremely complex and demanding, and therefore demand professional human resources in the realisation procedure. The merger or acquisition procedure can be realised on the existing financial market, or the extended financial market. The business combinations in the merger or acquisition process may be in the form of (1) consolidation or (2) integration. Consolidation is a combination of banking resources of similar financial resources (banks and bank holding companies. Integration is expanding financial institutions into several financial services (financial companies for insurance, consulting services, leasing services, risk management etc). Expanding the financial services industry by means of mergers and acquisitions has brought about the emergence of higher responsibilities in these processes. The responsibility policy is directed to the areas of

(1) capital regulation,
(2) institution supervision, and
(3) market discipline
The merger and acquisition procedures rely on different motives, depending on whether it involves national or international, or “major” and “minor” banks. If we talk about mergers and acquisitions of domestic banks, then their main motive is economies of scale, reduction of the distribution network, workforce downsizing, cutting the costs of shared information technologies and other fixed costs.

As for mergers and acquisitions of foreign banks, their motive is to cover a broader area of the financial market, apply modern information technology, manage risks, rationalise the costs and maximise the profit. In “minor” banking institution, the motives of merger and acquisition include cost cutting, reduction in the number of branches, and workforce downsizing in order to achieve synergistic (common) business effect. In the case of “major” banking institutions, then the motive of merger and acquisition is their repositioning on the financial market, cost cutting and increase of gains and profit per unit of equity. Formation of domestic financial conglomerates is guided by achieving economies of scale, especially in the area of cross-sale of a broad range of financial products and services, and diversification of potential risks. The practice of developed financial market includes two types of financial conglomerates. The first type constitutes financial conglomerates as proprietary connections of (1) commercial banks, (2) investment banks, and (3) companies for investment management. The second type includes financial conglomerates which, in addition to the already mentioned financial institutions, include insurance companies.

Financial conglomerates in developed European countries mostly include: (1) commercial banks, (2) investment banks, (3) bank asset management institutions, and (4) insurance companies (especially life insurance). These institutions are referred to as “bancassurance” (safe and reliable banks), which are a combination of banks and insurance companies.

Financial conglomerates of this type may have: (1) the form of cooperation agreement (strategic alliance), (2) joint venture, (3) their own branch (insurance policies are sold through the branches, and the services are sold through the bank distribution network); and (4) merger of a bank and insurance company. Creation of such a banking conglomerate rests only on common use of the distribution banking network, but also synergistic effects arising from different balance structures.

3. Characteristics of bank evaluation

The bank evaluation procedure is extremely difficult and risky, for it is necessary to provide a precise definition of the quality of credit portfolio, measure the current accounting profit and allocate it by the bank’s profit centres (i.e. branches). Conducted inappropriately, bank evaluation procedure may damage both the seller and the buyer of the bank. Overvaluing the bank may damage the buyers, as they will need a longer time period to recover the overpaid value of the bank.

Bank evaluation can be defined as an evaluation of the banking franchise. Banking franchise includes a larger number of individual characteristics of a bank. In most cases, a bank franchise includes the following characteristics (Vunjak, 2013, p. 93):

1. number of clients,
2. size of deposits and capital,
3. deposit insurance,
4. employees and management,
5. dissemination of the business network, i.e. location,
6. information technology,
7. size of financial potential,
8. quality of banking products and services,
9. image and reputation,
10. share of the financial market, etc.

These characteristics of the bank should be viewed in their interrelationship, as this is a man-
ner of increasing the value of the bank’s franchise. A significant element in the bank evaluation procedure is defining the transfer price of the bank’s assets and their sources. As the transfer price regulates the internal business relationship between the bank’s head office and profit centres, it is necessary to give a realistic definition of the transfer prices, so as to create at the retail and global level.

One of the more difficult elements of bank evaluation is evaluating its external and internal characteristics. The practical experience so far has shown that it is very difficult to determine the quality of a bank’s credit portfolio, then the part of the profit originating from the interest margin, and the profit centres that enlarge or reduce the bank’s value. The credit portfolio is characterised by changing interest rates and the debtors’ credit-worthiness. As the rate of asset and liability interest rate is influenced by numerous external factors, they may yield profit for the bank, but in another time period they could result in a loss.

Evaluating a bank’s internal characteristics refers to defining profit centres that create or reduce the bank’s value. The problem occurs in defining transfer prices at which liability and asset interest rates are calculated. Likewise, the problem occurs in determining the share of profit centres in the bank’s common costs. The question is how realistic it is to take number of staff, size of capital, size of deposit, balance sheet bottom line, amount of placements, number of banking transactions or achieved profitability of the bank’s profit centres as criteria. The process of evaluating the bank’s in-house characteristics implies a clear distinction between:

1. retail bank operations,
2. large-scale bank operations, and
3. the bank’s treasury operations.

As retail banks are mostly involved in collecting deposits, money market speculations, deposit certificates, the following questions emerge in the evaluation of these banks: reality of transfer prices, structure of capital, stability of deposit and costs of share capital. Retail bank operations are characteristic that approximately 20% of the monetary deposits are placed through external retail loans, and 80% of the deposits are placed to the bank’s treasury at the transfer prices. Such a structure of placements of monetary deposit is the cause for asking the questions for realistic definition of transfer price. It is believed that transfer prices should be at the level of market rates of securities with the same maturity dates. The stability of deposits directly depends on the deposit insurance procedure, as insured deposits are also stable deposits.

The structure of capital indicates that it is economically more cost-effective to locate the majority of share capital towards the bank’s reserves, consumer loans and loans to small businesses. Channelling placements to total assets (both corporate and retail), and especially on a large scale to big corporations, can cause its riskiness and failure to recover by maturity date. The costs of equity should be kept at the level of return rate achieved by other investors as well, with approximately the same level of investment risk.

Large-scale banking operations are characterised by every unit of disburse loans being financed 20% from the gathered deposits, and 80% from the bank’s treasury. Therefore, the open issues in this case include defining:

1. correct transfer price (rate of money),
2. capital structure, and
3. equity costs

As the money rate in large-scale business operations also depends on systemic risks, it is necessary to review and assess them, make their assessment and take appropriate protective measures (adjusting to them). It is especially necessary to analyse credit and interest risks. A significant element of assessment is capital structure, as 80% of sources are provided from the bank’s treasury. Equity costs are usually lower than the costs of the bank as a whole.

The bank’s treasury has the task to borrow assets from retail banks and place them to banks on a large scale. As the bank’s treasury performs the bank’s trading operations, it is responsible for centralised management of the bank’s risks, costs of the bank’s equity, and participation of profit centres in the bank’s common costs. The bank treasury’s business philosophy should be directed to banking principles related to harmony between large-scale and small-scale operation with the credit risk and the interest rate risk. Centralised management of the bank’s risks is possible by way of treasure, as the bank management gains insight into a centralised overview of both short-term and long-term banking operations. The costs of the bank’s share capital may be reduced, as the treasure-based approach to operation is used for the bank’s hedging transactions (interest rate risks are gathered in the treasure and mutually cancelled).
Conclusion

Bank evaluation implies the knowledge of the free cash flow model of the bank’s shareholder. Free cash flow is the dividend on the bank’s equity. Free flow of the bank’s shareholders’ monetary assets is calculated based on the net profit adjusted by net repaid loans, deposits, sale of shares and reduced by monetary assets required for enlarging balance items (bank reserves, securities, new loans, repurchased shares etc.). The bank’s net profit can be calculated by the net profit model and the spread model. The net profit model is used more in the financial reports of non-financial companies, whereas the spread model is more present in bank reports.

<table>
<thead>
<tr>
<th>Interest income</th>
<th>Sources of assets</th>
<th>Source utilisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) income from fees</td>
<td>loans due</td>
<td>New loans</td>
</tr>
<tr>
<td>(b) interest expenditure</td>
<td>(i) written-off monetary assets</td>
<td>(i) increase in held securities</td>
</tr>
<tr>
<td>(c) written of income</td>
<td>(ii) net collected loans</td>
<td>(ii) increased reserves</td>
</tr>
<tr>
<td>(d) income depreciation</td>
<td>(iii) deposit increase</td>
<td>(iii) reduced deposits</td>
</tr>
<tr>
<td>(e) taxes</td>
<td>(iv) credit increase</td>
<td>(iv) reduced loans</td>
</tr>
<tr>
<td>(f) net profit</td>
<td>(v) sale of new shares</td>
<td>(v) repurchased shares</td>
</tr>
<tr>
<td>(g) income depreciation</td>
<td>(vi) written-off write-off</td>
<td></td>
</tr>
</tbody>
</table>

### Graf 1
Free flow of the bank shareholders’ assets

The net profit method places focus interest income and interest expenditure, taking into account the asset and liability interest rate, and also the volume of disbursed loans and collected deposits. The model also takes into account other expenditures related to the profit and loss account (fees and provisions), and the tax on the bank’s earned profit. Net profit is the real indicator of the bank’s value, and the measure of the bank’s evaluation.

The spread model starts from the net income, which is calculated between the highest and the lowest asset interest rate, that is, the difference between the highest and the lowest liability interest rate, inclusion of asset-side interest in capital placement, inclusion of liability-side interest in allocated bank reserves, inclusion of other expenditures and taxes on the bank’s earned profit whether the net profit or spread model is used, the obtained amount of net profit is the same, which is of extreme importance for the application of bank evaluation concept.

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Business Project Affecting Competitiveness – Integrative Risk Management in Constitution of the Educational Institution

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Abstract
This research study presents the new position of integrative risk management within project management, giving the research example of an educational business project of developing a study programme and constitution of a new educational institution from the Croatian perspective of competitiveness. For the purpose of this research study, the process of constitution of the educational institution is observed as a business project which directly affects educational competitiveness and is given features characteristic of integrative project management. The twelve risks presented in the theory were considered but only seven with specific potential influence for the educational activity (in competitiveness) were defined in this project. The authors identified the type and gave description of risks as well as evaluating every single one and giving a potential respond. Finally, the authors grouped the risks into three categories: educational policies and legislative, educational activities and positioning in the educational market (related to competitiveness).

Keywords
Integrative project and risk management, risks identification, higher educational project, educational competitiveness.

Introduction
When managing a project in any field, a project team has one unavoidable task on which depends the future of the project, that is, dealing with potential risks. Risk management is therefore the unique segment of integrative project management that needs special care and demands knowledge and skills. The skill of risk management can be seen through the role of reactive and proactive project manager. While reactive is trying to solve problems when they come, proactive leaders want to jump on any problems and ensure that they do not occur. Although not all aspects can really be foreseen and many issues are likely to actually occur, most can be assumed and managed proactively. Each project contains a certain level of risk and according to the estimation of that level, the management decides on putting the issue into focus and acting to minimize any damage for the life and success of the project. Contemporary economy requires a workforce ready to take the plunge while it means being able to recognise the risks and to know how to manage them well. Effective and efficient risk management is a prerequisite for high-quality decision-making process. Many studies were carried with the aim of raising the quality of risk management in the projects out and trainings to successfully navigate the process of defining, analysing and responding to risks for
teams are often organized. This research paper presents the basic principles of risk management as integral process within integrative project management and shows the definition, analysis and response to potential risks when managing competitive educational project – developing a new research study. A word ‘project’ has its roots in the Latin language and means to project or ‘throw ahead’. It could be explained by the fact that the project comes before the idea is implemented. Definition of the American PMI (Project Management Institute, 1996) says that the project is a temporary endeavour undertaken to create a unique product, service or result.

1. Defining risks – the point from where the real business starts

Each project is characterized by the existence of the beginning and the end, and is temporary and unique and results in some product or service. When talking about the project of educational services it is related to the ability of service – specifically, teaching activities. Wysocky and McGary (2003) define a project as a sequence of unique, complex and interrelated activities that have a common goal or purpose and the specific period of completion, budget and defined specification. According to Project Management Institute (1996) project management refers to the application of knowledge, skills, tools (Šimović, Zovko, & Bobera, 2011) and techniques in carrying out activities to achieve the project requirements that are to be met. A project consists of defined phases whose number and order depends on the specifics of the project. The phases in total are referred to as project life cycle. From the start to the closing of the project it is necessary to define the following: which business is done in an individual stage, what are the deadlines of the specific task completion, who are the participants of a phase and how would individual phases be monitored and accepted, etc.

In order to manage projects according to standardized quality norms NORM ISO 10006 a total of 11 major groups of processes that are carried out during the project are defined. One group combines different processes related to risks. The task of this process is to minimize the impact of possible adverse events and increase the benefits of the events that provide an opportunity for improvement. Holton (2004) defines risk as exposure to the assumption that involves uncertainty where probability is its measure. Within the project management the common definition of the term ‘risk’ is the concept that explains risk as possibility of damage or loss as a result of any behaviour, event or adverse effect which may, but need not occur during the project. Yoing and Tippins (as cited in Aleksić, 2009) divided risks into speculative and hazardous. When speculative risks are undertaken, a project can make a profit that can improve the current situation and the risk is reflected in the potential opportunities that does not come to the same or that the situation is worse than the original. Hazardous risk, on the other hand, refers to the risk that exclusively represents the possibility of potential loss or damage. It is important to know the different manifestations or areas of origin of the specific risk for more operational consideration of all factors when defining integrative risk in a project. According to Pašić (2009) there are 12 areas of risk types. These are: political - a change of government, ministry, important political decisions; legislative - change in state policies, laws and regulations; market - fundamental changes in supply and demand trends and competition; professional - associated with new developments and knowledge within the profession; economic - the ability to attract and retain the workforce, the impact of exchange rate changes, the impact of the global (regional or local) economy; socio-cultural - demographic changes, changes in the socio-economic structure of the user; health and safety - equipment of infrastructure, environment, security, infrastructure development, stress; technology - the obsolescence of existing systems, cost of new technology; contractual - associated with a default of suppliers or contractors within the agreed timelines and costs; environment - must meet the standards of society; physical - theft, vandalism or damage caused by weather conditions, as well as floods and fires; work - related to the processes underway.

The definition of (integrative) risk management is derived from the definition of the term risk. If we accept that, according to Aleksić (2009), foundation of risk lies in assessment of capabilities/willingness to accept some loss or damage in the work undertaken, we can summarize that the (integrative) management of risks is related to the following processes: risk identification, risk evaluation, implementation of the response to the assumed risk and monitoring the behaviour of elements through which the realization of the potential risks can be identified and assumed and control of the implementation steps of risk response. According to British standard BS
The integrative risk management process is presented in Figure 1.

![Figure 1 (Integrative) Risk management process]

Source: British Standards Institute, 2000

Some authors raise the dilemma of whether to begin risk management process by planning or should it be integrated into the planning of the project area. For the latter, integrative risk management must not be a separate action. The segment all authors agree is that an effective risk management improves project performance by reducing expenditure for respecting deadlines and achieving business goals. The process of integrative risk management refers to decisions about strategies and implementation activities needed throughout the life cycle of the project.

Among other things this process involves: defining the methodology of risk management, appointment of persons responsible for each activity envisaged, making needs assessments for funding, term planning and setting deadlines for each planned activity, evaluation of risk defined by the determination of the level of risk, determining the level of tolerance to certain risks, defining forms of monitoring and reporting on the status of risk and defining the monitoring process.

1.1. Risk identification

Risk identification involves the assessment of potential adverse effects on the desired project. In this section, besides the project team members, it is advisable to include representatives of other interest groups. Identification is possible on the basis of experience or reference to information obtained from research of relevant technical or scientific publications. Identification procedure involves making a list of predicted risks with an explanation of the causes of their occurrence and estimates of the potential impacts.

1.2. Risk analysis and response to risk

Analysis or evaluation of the risks relates the study of the identified risks to find possible answers for risk prevention. During the analysis it is important to determine the level or category of risk which means determining the probability of occurrence of adverse impact and size of damage and therefore prioritization. Risk analysis can therefore be qualitative and quantitative. Qualitative risk analysis refers to the assessment of priority and probability of risk appearance while quantifying analysis refers to the estimation of the magnitude of potential damage to the planned project objectives. A quantitative analysis mainly uses appropriate advanced validated techniques and tools.

A possible solution for preventing the potential risk is once considered to be a separate activity but it builds on risk analysis and before that identifying the reasons of occurrence. If the project team is thoroughly familiar with these reasons it will be easier to respond to risk.

There are different strategies in responding to risk, some of which may be positive, some negative or neutral. They are: to avoid the risk, transfer risk or liability, mitigate risk and reduce the probability of risky situations, increase the likelihood of positive impact and acceptance of risk related to not taking any measures.

1.3. Integrative control and supervision of risk management

Estimated situation with a detailed analysis and possible solutions should be kept under continuous integrative control. In this research section of risk management process, the current status complements with the new findings based on objective information. The focus here is on feedback – feedback of a responsible person who can change the status of risk and following the completion of agreed activities risky situation can be removed or an unplanned new risk may occur during the process that has not been identified in the earlier stages of the project.
1.4. Defining and managing risks at starting competitive educational project – institution of higher education

The education market in Croatia is developing rapidly in the last ten years, especially in the direction of the establishment and operation of competitive private higher education institutions. The process of preparatory activities for the establishment of such schools and the provision of necessary legislative documents can be observed as a project and for the purpose of this research paper potential risks are defined and evaluated.

According to the previously mentioned types of risks in the specific case of educational activities, predicted risks are described in detail, evaluated and presented with a possible response in Table 1.

<table>
<thead>
<tr>
<th>Type of risk</th>
<th>Description of defined risk</th>
<th>Evaluation</th>
<th>Respond to the risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td>Since this is a long process which precedes the initiation of higher education institution, it can assume changes in education policy relating to the status of professional studies.</td>
<td>Find links to educational programs compatible and already tried in the European Union.</td>
<td>It is assumed that lecturers will take care of the status of their own licenses.</td>
</tr>
<tr>
<td>Legislative</td>
<td>Associated with changes of educational policy changes in terms of the business conditions for private schools, which can be expected.</td>
<td>The changes that have already taken place are related to the increase in the mandatory number of employed teachers. Another risk of this kind is to satisfy the conditions set for obtaining permanent accreditation.</td>
<td>It is expected that experts in certain areas follow the trends and are able to suggest changes of the programs based on the current developments of the profession.</td>
</tr>
<tr>
<td>Economic</td>
<td>A system that monitors the educational activities as well as the necessary IT equipment are extremely expensive and prone to frequent failures so the costs in this segment may run out of control.</td>
<td>Without a good technological base it is not possible to set the school on a competitive education market.</td>
<td>After careful formulation of costs and defining competitive price of tuition it is necessary to conceive pay tuition in several smaller amounts, provide common insurance forms (checks, credit cards) or arrange special credit packages with the bank.</td>
</tr>
<tr>
<td>Contractual</td>
<td>Signed teaching contract at the time of development of verification documentation can significantly deviate from the situation at the time when the school moved to action.</td>
<td>Overloading of lecturers at home institutions leaves no space to engage in private schools. On the other hand there are too few qualified personnel on the educational labour market with a valid teaching license for certain specialized areas.</td>
<td>The same solution that responds to a question of risk associated with the license is recommended. School needs to develop its own program of development of teaching staff with regard to the real needs.</td>
</tr>
<tr>
<td>Market</td>
<td>A large number of private colleges on the market increase the need for a competitive business.</td>
<td>It is essential to define a specific program that will be recognized in the educational market and distinguished from the others. As well to develop standards that will ensure the quality of program implementation and ensure desired position.</td>
<td>Encourage professional activities for teachers to ensure re-election to the position and start re-election before the first class.</td>
</tr>
</tbody>
</table>

Source: Authors’ own research

Other types of risks are not elaborated in detail in the table but it is understood that there are
health and safety risks, risks of vandalism, theft of intellectual property, natural disasters or risks due to the mistakes during the working process. All of them need to be taken into account when organizing the school as well as starting project of some other activity.

**Conclusion**

There are assumptions that integrative risk management refers to assessment of risks on the key activities of the institution. European practice, however, proved to have the most significant benefit if the risks are thoroughly examined in all segments of action. When it comes to competitive education it means academic activities, too. There are a lot of potential risks that were not examined in this short research study but in some way it implies that they will be taken care of. For this reason the total of twelve risk areas, for this specific example of starting the higher education institution there were defined only seven. These seven are considered key ones given the specificity of the educational activity and in some ways can be grouped into three according to the origin of the risk. The first group is the risk imposed by the competitive educational policies and legislation and in this group include contractual, political and legislative. The second group is the risks relating to the organization of the elementary activity - technologically and professionally conditioned risks and economic and market risks relating to conditional positioning in the market.

Considering the risks presented and the groups from which they derive it could be concluded that the competitive educational activity, perhaps more than other needs long-term observation of the potential risks. Presented project in some segments determined planning for ten years ahead. This applies especially to prediction of legislative and policy changes and preparation of the future workforce that generally does not exist 'ready to use' on the labour market.

Although integrative risk management requires additional effort in moments of development, it seems unavoidable segment of project management. The project team that has the knowledge and ability to successfully manage the project could create conditions for the safe realization of the project but in other words those who are not competent for the risk management processes can jeopardize the future of the entire project. Risk management depends on the time component also so it is essential to postulate the risk on time as well as to find a satisfactory answer before starting the activities.

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The Internationalization of HR Function in Local Subsidiaries of MNCs in CEE Countries

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Abstract

After 1990 multinational companies (MNCs) started to invest and operate in Central and Eastern Europe (CEE), where they have played an important role in the distribution of modern human resource management (HRM) concepts and have been models for the implementation of relevant HRM practices. As MNCs – beside their capital – usually bring also their management philosophy to the region, they contribute to the internationalization of their local subsidiaries. The aim of this paper is to explore the HRM function’s level of internationalization in local subsidiaries of MNCs. The analysis was carried out on data collected through the international benchmark research project Central and Eastern European International Research Team (CEEIRT) during 2012-2013. The sample consists of about 250 companies from five CEE countries (Hungary, Poland, Romania, Slovakia and Serbia), participating in the CEEIRT research project on a voluntary basis. The paper covers issues related to the employment of expats, the role of headquarters’ HR department in the local HRM activities and the importance of foreign language skills for HR managers. Research findings underline the importance of HRM in the internationalization process of local subsidiaries of MNCs in Central and Eastern Europe. Despite its limitations – occurring due to the benchmark character of the research – the paper gives valuable insight on the internationalization process of the HRM activities of local subsidiaries of MNCs in the CEE region. To provide a statistically more adequate explanation of the differences between MNC subsidiaries from the five analyzed countries, future research with a larger sample and representative sectoral distribution of companies would be necessary.

Keywords

Internationalization, HRM, CEE, CEEIRT, expatriates.

Introduction

The globalization of businesses lead to the increasing recognition of the well-managed workforce and the development of the HR role from being an administrative or support function to one fulfilling strategic importance. The competitiveness of companies and even countries or regions has increasingly been recognized to stem from the caliber of their staff and people management strategies (Porter 1990; Pucik 1992).

Recent management literature (Brewester, Maryhofer, & Morley, 2004; Ulrich, Allen, Brockbak, Younger, & Nyman, 2009) states that the conventional sources of competitiveness (like protected markets, technology, access to financial resources, and economies of scale) are insufficient for maintaining a competitive advantage in today’s competitive markets. As the importance of adequate human resources has been acknowledged, more and more companies make considerable efforts to improve the effectiveness of human resource management. Many authors think that
the human factor (knowledge, skills, and behaviour) is the key to sustaining long-term competitiveness (Sparrow, Hird, Hesketh, & Cooper, 2010).

Dowling, Festing and Engle (2008), like Chikán and Czakó (2009) stress that multinationals generally operate their management functions (including HRM) at a higher level than local companies do. Multinational companies apply highly efficient methods for performance management, communication, training and career management. On the contrary, local companies usually focus on collective agreements and staffing issues related to strikes. The foreign companies have an important influence on the recipient country’s economic development. Erdős (2003) considers that multinational companies with high capital value have an important influence on the smaller countries’ growth potential. Besides the advantages of multinational companies, Stiglitz (2003) also calls attention to their disadvantages, highlighting that these big companies often tread down the small local companies.

International assignment failures not only affect the organization’s international business performance and development but also can frustrate an employee’s career growth (Caligiuri, Hyland, Joshi, & Bross, 1998; Newton, Hutchings, & Kabanoff, 2007). Because each expatriate’s adjustment and performance are likely to influence the organization’s success in building foreign business, strategies for selecting, training, and placing expatriates are critical to the success of a multinational corporation’s operations. Scholars predict that expatriates who attend cross-cultural training should be more prepared for uncertainty and tolerate changes to their habits, norms, policies, and work environment (Bozionelos, 2009).

Multinational companies that arrived in Central and Eastern European region use two main categories of foreign investments: foreign direct investments and portfolio investments. By foreign direct investments (FDI) the investor secures direct control over assets and operation of a company in another country. Poór, Seres-Huszárik and Mura (2012, p. 8) point out that the characteristics of the local market, economic and institutional environment and the national culture might demand – to varying degrees – the adaptation of company’s strategy and its management practice to local circumstances.

1. About the CEEIRT research methodology

The international CEEIRT (Central and Eastern European International Research Team) consortium is composed of researchers and university professors from twelve countries of Central and Eastern Europe (CEE). The empirical research based on questionnaires tackles the HR practice of multinational companies’ settled down in the region and it has been carried out since 2009.

International research results and the results of the authors’ previous surveys as well in were used developing the research model (Poór & Farkas, 2012, p. 10). The model has developed in the past few years and now we take into consideration more internal factors (company characteristics, phases in company development, mandates etc.) than at the beginning of the CEEIRT research. In the research period 2012-2013 our analysis was made based on the research model presented in Figure 1.
The aim of this paper is to explore the HR function’s level of internationalization in local subsidiaries of multinational companies settled down in Hungary, Poland, Romania, Serbia and Slovakia.

Standardized questionnaires (translated into the official languages of examined countries) were used for company interviews and on-line survey¹ to make statistical analysis and data comparison easier. The questionnaire was filled out by the person responsible for HR practice from the MNC subsidiaries (HR director, HR expert, CEO, etc).

The questionnaire covered the following nine areas:
- the interviewees’ data,
- the companies’ organizational data,
- the importance and key indicators of HR function,
- the role of headquarter and local HR department,
- the HR managers’ competences,
- the expatriates (foreign and local),
- the use of external HR service providers,
- knowledge management in HR,
- the future tasks for HR.

¹ The web survey can be accessed at the following address: www.ceeirt-hrm.eu

After presenting the companies’ organizational data, in this paper we will analyze the role of the HR department from the MNCs’ headquarter and subsidiaries’, the number of foreign expatriates in managerial and non-managerial position, the trends in sending local employees to foreign assignments and the requirement of knowing foreign language(s) as one of the competences expected from HR managers in MNC subsidiaries operating in Hungary, Poland, Serbia and Slovakia based on data collected in 2012 and 2013.

Even though the sample of companies we have reached is not representative for all MNC subsidiaries operating in the analyzed countries, the results of this benchmark survey reflect some characteristics of the internationalization of HR practices and signal the challenges faced by these companies.

2. Samples overview

In the research period 2012-2013, 118 Hungarian, 53 Polish, 34 Romanian, 19 Serbian and 30 Slovakian international companies participated in the CEEIRT survey. The table below shows the number and percentage distribution of participants by country.

Table 1 Percentage of participating companies by country

<table>
<thead>
<tr>
<th>Country</th>
<th>Number</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HU</td>
<td>118</td>
<td>46.5</td>
</tr>
<tr>
<td>PL</td>
<td>53</td>
<td>20.9</td>
</tr>
<tr>
<td>RO</td>
<td>34</td>
<td>13.4</td>
</tr>
<tr>
<td>SRB</td>
<td>19</td>
<td>7.5</td>
</tr>
<tr>
<td>SVK</td>
<td>30</td>
<td>11.8</td>
</tr>
<tr>
<td>Total</td>
<td>254</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Authors’ own research
The majority of companies involved in the research operate in Hungary or Poland, the subsidiaries from Romania and Slovakia are present in our research in less proportion and the fewest analyzed companies operate in Serbia.

The subsidiaries of multinational companies participating in the survey were equally operating in manufacturing industry and in various services. Almost half of the analyzed local subsidiaries belong to small and medium sized companies. Only about 27% of the companies have more than 1000 employees. The highest proportion of small companies (with fewer than 250 employees) was interviewed in Slovakia.

3. Results

In the following section we will present the results concerning the role of the HR department of the MNCs’ headquarter, the number of foreign expatriates in managerial and non-managerial position, the trends in sending local employees to foreign assignments and the requirement of knowing foreign knowledge from HR managers.

The fourth table presents the typical role of headquarters’ HR department in the human resource management activities of local subsidiaries.

<table>
<thead>
<tr>
<th>Typical role of HQ HR department</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>Serbia</th>
<th>Slovakia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hands off, provide complete freedom</td>
<td>19.8</td>
<td>16.0</td>
<td>24.1</td>
<td>5.6</td>
<td>19.8</td>
<td>19.8</td>
</tr>
<tr>
<td>Provide general guidelines</td>
<td>53.4</td>
<td>48.0</td>
<td>34.5</td>
<td>44.4</td>
<td>47.5</td>
<td>47.5</td>
</tr>
<tr>
<td>Provide detailed HR model, policy</td>
<td>20.7</td>
<td>24.0</td>
<td>34.5</td>
<td>44.4</td>
<td>24.1</td>
<td>25.2</td>
</tr>
<tr>
<td>Source of all remotely significant HR decisions</td>
<td>6.0</td>
<td>12.0</td>
<td>6.9</td>
<td>5.6</td>
<td>6.9</td>
<td>7.4</td>
</tr>
</tbody>
</table>

Source: Authors’ own research

The second table shows the distribution of participating MNCs by industry sector.

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Manufacturing industries</th>
<th>Trade</th>
<th>Financial services</th>
<th>Other services</th>
<th>Internal business services</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>116</td>
<td>42</td>
<td>33</td>
<td>48</td>
<td>9</td>
<td>6</td>
<td>254</td>
</tr>
<tr>
<td>Percentage (%)</td>
<td>45.7</td>
<td>16.5</td>
<td>13.0</td>
<td>18.9</td>
<td>3.5</td>
<td>2.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Authors’ own research

The third table shows the distribution of participating MNCs by size.

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>Serbia</th>
<th>Slovakia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 250</td>
<td>40.0</td>
<td>47.1</td>
<td>48.5</td>
<td>52.9</td>
<td>70.6</td>
<td>48.0</td>
</tr>
<tr>
<td>251-1000</td>
<td>26.1</td>
<td>29.4</td>
<td>30.3</td>
<td>11.8</td>
<td>14.3</td>
<td>25.0</td>
</tr>
<tr>
<td>1001-2000</td>
<td>15.7</td>
<td>11.8</td>
<td>15.2</td>
<td>35.3</td>
<td>3.6</td>
<td>14.8</td>
</tr>
<tr>
<td>2001-5000</td>
<td>13.0</td>
<td>9.1</td>
<td>6.1</td>
<td>0</td>
<td>3.6</td>
<td>9.4</td>
</tr>
<tr>
<td>More than 5000</td>
<td>5.2</td>
<td>2.0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Source: Authors’ own research
lines is similar to those providing detailed policy and model.

Tables 5 and 6 show survey results about the use of foreign expatriates in managerial and non-

managerial positions in the local subsidiaries of multinational companies in the analyzed five countries.

<table>
<thead>
<tr>
<th>Table 5</th>
<th>The use of foreign expatriates in managerial positions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign expats – managerial positions</td>
<td>Hungary</td>
</tr>
<tr>
<td>Not used</td>
<td>55.3%</td>
</tr>
<tr>
<td>1 person</td>
<td>15.8%</td>
</tr>
<tr>
<td>2-3 persons</td>
<td>9.6%</td>
</tr>
<tr>
<td>4-5 persons</td>
<td>7.9%</td>
</tr>
<tr>
<td>6-10 persons</td>
<td>1.8%</td>
</tr>
<tr>
<td>11-15 persons</td>
<td>0.9%</td>
</tr>
<tr>
<td>16-20 persons</td>
<td>1.8%</td>
</tr>
<tr>
<td>More than 20 persons</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

Source: Authors’ own research

From the obtained data it can be concluded that employing foreign expatriates for managerial positions is not common in the majority of the local subsidiaries of MNCs in the analyzed countries. In more than 60% of the analyzed companies foreign expats are not used at all in managerial positions. In about 25% of local subsidiaries 1-3 foreign expats are working as managers. In less than 10% of the analyzed companies there are 4-10 expatriates at the managerial positions. In 2% of the examined companies there are 11-20 expatriates, while in 4% there more than 20 foreign expatriates can be found in managerial positions. The employment of foreign expats as managers is the most common in Hungary and the least common in Slovakia.

<table>
<thead>
<tr>
<th>Table 6</th>
<th>The use of foreign expatriates in non-managerial positions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign expats – non managerial positions</td>
<td>Hungary</td>
</tr>
<tr>
<td>Not used</td>
<td>71.9%</td>
</tr>
<tr>
<td>1 person</td>
<td>10.5%</td>
</tr>
<tr>
<td>2-3 persons</td>
<td>4.4%</td>
</tr>
<tr>
<td>4-5 persons</td>
<td>3.5%</td>
</tr>
<tr>
<td>6-10 persons</td>
<td>4.4%</td>
</tr>
<tr>
<td>11-15 persons</td>
<td>0.9%</td>
</tr>
<tr>
<td>16-20 persons</td>
<td>0.0%</td>
</tr>
<tr>
<td>More than 20 persons</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Source: Authors’ own research
The employment of foreign expatriates in non-managerial position is even less common in the local subsidiaries of foreign MNCs from the analyzed five countries, than the promotion of foreign expats to managerial positions. In almost 80% of companies foreign expats are not used at all for non-managerial positions. In about 11% of local subsidiaries 1-3 foreign expats are working in non-managerial positions. In less than 7% of the analyzed companies there are 4-10 expatriates at the non-managerial positions. There are no companies with 11-20 expatriates at the non-managerial jobs, while in about 4% of them there are more than 20 foreign expatriates at the managerial positions. The employment of foreign expats at the non-managerial positions is the most common in Hungary and Romania and the least common in Slovakia.

From these data it can be concluded that the majority of the local subsidiaries of MNCs do not send their local employees to foreign assignments. In almost 75% of the analyzed companies local managers do not get the possibility to work as expatriates. In about 15% of local subsidiaries only 1-3 local expats are working as managers abroad. In less than 10% of the analyzed companies there are 4-10 expatriates at the managerial positions. In 2.4% of the examined companies there are 11-20 expatriates, while in less than 4% of them there are more than 20 local employees at foreign assignments. Sending local managers to work for the company abroad is the most common in Romania while it is the least common in Slovakia.

<table>
<thead>
<tr>
<th>Local expats – managerial positions</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>Serbia</th>
<th>Slovakia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not used</td>
<td>71.4%</td>
<td>77.4%</td>
<td>66.7%</td>
<td>73.7%</td>
<td>92.9%</td>
<td>74.7%</td>
</tr>
<tr>
<td>1 person</td>
<td>10.7%</td>
<td>7.5%</td>
<td>12.1%</td>
<td>10.5%</td>
<td>3.6%</td>
<td>9.4%</td>
</tr>
<tr>
<td>2-3 persons</td>
<td>7.1%</td>
<td>5.7%</td>
<td>9.1%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>5.7%</td>
</tr>
<tr>
<td>4-5 persons</td>
<td>1.8%</td>
<td>3.8%</td>
<td>6.1%</td>
<td>10.5%</td>
<td>0.0%</td>
<td>3.3%</td>
</tr>
<tr>
<td>6-10 persons</td>
<td>4.5%</td>
<td>3.8%</td>
<td>3.0%</td>
<td>5.3%</td>
<td>0.0%</td>
<td>3.7%</td>
</tr>
<tr>
<td>11-15 persons</td>
<td>0.0%</td>
<td>0.0%</td>
<td>3.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.4%</td>
</tr>
<tr>
<td>16-20 persons</td>
<td>3.6%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>3.6%</td>
<td>2.0%</td>
</tr>
<tr>
<td>More than 20 persons</td>
<td>0.9%</td>
<td>1.9%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.8%</td>
</tr>
</tbody>
</table>

Source: Authors' own research

<table>
<thead>
<tr>
<th>Local expats – non-managerial positions</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>Serbia</th>
<th>Slovakia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not used</td>
<td>66.1%</td>
<td>77.4%</td>
<td>75.8%</td>
<td>78.9%</td>
<td>92.9%</td>
<td>73.9%</td>
</tr>
<tr>
<td>1 person</td>
<td>8.9%</td>
<td>5.7%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>3.6%</td>
<td>5.7%</td>
</tr>
<tr>
<td>2-3 persons</td>
<td>5.4%</td>
<td>3.8%</td>
<td>9.1%</td>
<td>10.5%</td>
<td>0.0%</td>
<td>5.3%</td>
</tr>
<tr>
<td>4-5 persons</td>
<td>2.7%</td>
<td>5.7%</td>
<td>0.0%</td>
<td>5.3%</td>
<td>0.0%</td>
<td>2.9%</td>
</tr>
<tr>
<td>6-10 persons</td>
<td>7.1%</td>
<td>1.9%</td>
<td>6.1%</td>
<td>5.3%</td>
<td>3.6%</td>
<td>5.3%</td>
</tr>
<tr>
<td>11-15 persons</td>
<td>0.9%</td>
<td>3.8%</td>
<td>6.1%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>16-20 persons</td>
<td>2.7%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>1.2%</td>
</tr>
<tr>
<td>More than 20 persons</td>
<td>6.3%</td>
<td>1.9%</td>
<td>3.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>3.7%</td>
</tr>
</tbody>
</table>

Source: Authors' own research
From the data shown in table 8 it can be concluded that the employment of local expatriates at non-managerial positions is equally not common as the use of local expatriates in managerial positions. In almost 74% of the examined companies local employees in non-managerial positions are not sent to foreign assignments at all. In about 11% of local subsidiaries 1-3 local expats are working at non-managerial positions abroad. In about 8% of the analyzed companies there are 4-10 local expatriates in non-managerial positions, in about 3% of companies there are 11-20 local expatriates, while in about 4% of them there are more than 20 local expatriates in non managerial positions. The employment of local expats in non-managerial positions is the most common in Hungary and the least common in Slovakia.

The last table shows the research results concerning the most important HR competences.

### Table 9 The key competences for HR managers (%)

<table>
<thead>
<tr>
<th>Key competences</th>
<th>Hungary</th>
<th>Poland</th>
<th>Romania</th>
<th>Serbia</th>
<th>Slovakia</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal credibility</td>
<td>87.9</td>
<td>96.0</td>
<td>63.9</td>
<td>88.2</td>
<td>78.6</td>
<td>89.3</td>
</tr>
<tr>
<td>Knowledge of foreign languages</td>
<td>79.5</td>
<td>80.0</td>
<td>75.8</td>
<td>76.5</td>
<td>60.7</td>
<td>76.7</td>
</tr>
<tr>
<td>HR services</td>
<td>70.9</td>
<td>79.6</td>
<td>84.8</td>
<td>76.5</td>
<td>60.7</td>
<td>73.8</td>
</tr>
<tr>
<td>Business knowledge</td>
<td>66.4</td>
<td>79.6</td>
<td>69.7</td>
<td>76.5</td>
<td>50.0</td>
<td>68.3</td>
</tr>
<tr>
<td>Strategic contribution</td>
<td>69.0</td>
<td>77.6</td>
<td>75.8</td>
<td>70.6</td>
<td>46.4</td>
<td>69.1</td>
</tr>
<tr>
<td>Use of HRMS (IT)</td>
<td>52.1</td>
<td>45.7</td>
<td>72.7</td>
<td>76.5</td>
<td>64.3</td>
<td>56.8</td>
</tr>
</tbody>
</table>

Source: Authors’ own research

Survey data show that in all five analyzed countries personal credibility is the most important competence for HR managers at the local subsidiaries of MNCs. It is interesting that the knowledge of foreign languages is the second most important factor. As the research was done in the local subsidiaries of multinational companies, it was assumed that this is evidence, not a key competence. The next factors are HR services and strategic contribution showing that professional knowledge is necessary for HR managers to gain strategic role in the company. The use of HR information system is considered to be the least important competence for HR managers from the analyzed ones. There is no significant difference among the analyzed countries regarding the ranking of the key competences contributing to the success of the HR managers.

## Conclusions

Multinational companies have an important role in the change of management techniques in CEE region. As they apply modern HRM methods MNC subsidiaries are an example for local firms in development of human resource management practice and contribute to the changing of attitudes about the role of employees in the companies’ success.

Based of the results of the CEEIRT research it can be concluded that the local HR departments of MNCs’ subsidiaries in Hungary, Poland, Romania, Serbia and Slovakia have a relatively high degree of autonomy, because the parent company’s HR department usually defines only general guidelines and frameworks for actions, and does not interfere with the daily HR activities.

The employment of foreign expatriates in the managerial position in the five analyzed countries is not common. Only 40% of the examined local subsidiaries of MNCs have this practice. For non-managerial position the use of foreign expats is even less common, only about 23% of analyzed companies employ them. The use of foreign expats – both in managerial and non-managerial positions – is the highest in Hungary and the lowest in Slovakia.

In Hungary, Poland, Romania, Serbia or Slovakia the practice to send local managers and employees to foreign assignments is not common. About 25% of examined local subsidiaries of MNCs use to send their managers or employees to work abroad. The highest share of companies employing local expats is in Hungary, while the lowest is in Slovakia.

HR managers from the region are expected to have personal credibility, foreign language skills, knowledge of HR capacity to provide a strategic contribution to the company. Emphasizing personal credibility may suggest that HR managers are working with people and sometimes they decide about their destiny, therefore they should have better than average interpersonal skills. At the same time HR managers have to efficiently and effectively carry out their work to achieve the company’s national, regional and global strategic aims.

Based on survey data it can be concluded that the level of internationalization of the HR function in the local subsidiaries of MNCs in Hungary, Poland, Romania, Serbia and Slovakia is on a moderate level. The HQ’s HR department is providing general guidelines for the HR activities of local subsidiaries, while the use of foreign and
local expatriates is not common in the region. The importance of knowing foreign language is an important key competence of local HR managers. There is no significant difference between the analyzed countries regarding the level of internationalization of HR activities.

It is expected that with the intensification of the process of globalization, the level of internationalization of HR activities in the CEE countries will increase and local HR departments will get higher autonomy from their HQ, will employ more foreign and local expats for managerial and non-managerial positions and the foreign language skills of an HR manager will be an evidence, not a key competence.

The authors intend to develop this research in three different directions:

- A deeper statistical investigation concerning correlation and regression analyses are planned.
- We intend to examine cultural similarities and differences in HR practice at organizations with different cultural background (American, German, Latin, etc.)
- In the following stage of our research, we will try to identify any patterns in type of industry, size of firm or national origin of the firm.

It is important for MNCs to be aware of the economic, political and social challenges of this rapidly developing region, where they want to establish a subsidiary, in order to successfully adapt the global HR practices and techniques in their local subsidiaries.

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Strategic Methods for Measuring Marketing Performance of Companies in the Republic of Macedonia

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Abstract
At Google, there is a saying that is frequently used: “Data beats opinion.” In practice, this means that for any activity, we first determine our key success metrics and then measure how we are doing against them on a regular basis. This allows us to optimize and expand those programs that are working, while shutting down those that are not. In today’s hyper-competitive business landscape, most marketers are compelled to take this approach versus relying on conventional wisdom, rules of thumb, or intuition that may have been sufficient in the past.

The challenge, of course, is knowing what to measure and exactly how to measure it. This is where marketing metrics comes in. It is the most comprehensive and authoritative guide to defining, constructing, and using the metrics every marketer needs today. Perhaps the most pressing question in marketing today is not simply how to measure any single outcome, but understanding how all the various metrics interconnect — and the resulting financial consequences of your marketing decisions.

For this reason companies need strategic methods and tools that help them put all the required metrics and build a signalling device that gives the proper information about the effectiveness of the marketing activities that were conducted in the company.

This paper focuses on those strategic methods with special attention to the use of marketing dashboards, a method that is frequently used abroad but also in some of the companies in Macedonia. In order to determine the use of such methods in our country a research will be conducted on a sample of companies.

Keywords
Marketing performance, strategic methods, measuring, dashboards.

Introduction
The intangible benefits of marketing – improving and enhancing brand awareness; educating customers and prospects about product benefits; and strengthening stakeholder relationships – make measuring its financial impact a perplexing and challenging process. Marketing performance measurement should be a logical extension of the planning and budgeting process. The goals that are set should be both measurable and applicable to every marketing role within an organization. Companies employ various methodologies to measure marketing performance and ensure they meet those performance goals.

Morgan, Clarck and Gooner (Neely, 2002, p. 51) provide a theoretical framework for effective marketing performance measurement systems and according to their opinion marketing performance measurement is a contingent process and the nature of it will change depending on the company’s marketing strategy, corporate context and task environment. This measurement system depends on data availability and some companies have vast amounts of data, while others have very little to work with. The measurement system also depends on the attitude of the top management of the company, the industry norms and regulatory regimes.

Marketing performance is essentially multi-dimensional. A firm needs at least as many metrics as it has goals of which short-term survival
and long-term growth are the most common. (Ambler & Roberts, 2008, pp. 733-750)

In order to perform an effective marketing performance measurement, companies need proper tools that help them in the measuring process and have significance in the decision making process.

Dashboards, which are an important component of performance management, are one of those marketing tools. In addition to fostering better strategic and resource-allocation decisions, a good dashboard demonstrates the alignment of marketing expenditures with anticipated results.

Marketing dashboards are an important tool for ensuring that marketing initiatives are on track. They help facilitate strategic decisions and recommend course adjustments, such as whether the marketing organization is on track to drive demand of products according to forecasts through higher-quality leads to sales, improved customer retention, or an increased market footprint.

Its purpose is to capture the most critical diagnostic and predictive metrics and represent performance patterns visually, at-a-glance. To create the dashboard, the organization will need to be able to capture information from different information systems and consolidate data from campaigns, responses, customer interactions, and new business.

Methodology

The preparation of this paper was based on these methods: analysis, synthesis, survey, comparative method and statistical method. The theoretical part is based on the methods of analysis and synthesis, coupled with knowledge of the international professional literature, knowledge of scholars and others who have researched the issue with which this paper deals.

The empirical part of the paper is based on a survey questionnaire and an interview with a structured questionnaire implemented in thirty Macedonian companies. In addition, the comparative method was used to distinguish the responses of companies. The data processing was completed with Google Cloud tools and technology that enables summarizing the data and generating a report which allows a simple review of the received answers.

Hypothesis

Companies in Macedonia do not use strategic methods to measure marketing performance and do not conduct measurement of their marketing efforts.

Those companies that do measure perform it very rarely and do not have the proper marketing human and financial resources and place in the organizational structure to have a strategic marketing approach.

The lack of marketing approach of our companies affects their ability to grow on the market and gain more customers.

1. Marketing performance measurement as an integral part of strategic marketing planning

Marketing plays a critical role in corporate strategic planning within successful companies. Market oriented strategic planning is the managerial process of developing and maintaining a viable fit among the organization’s objectives, skills, and resources and its changing market opportunities. The aim of strategic planning is to shape the company’s businesses and products so that they yield target profits and growth and keep the company healthy despite any unexpected threats that may arise.

However, the development of a marketing plan is not the end of the marketing process. High-performance companies must have an expertise in organizing, implementing, and controlling marketing activities as they follow marketing results closely, diagnose problems, and take corrective action when necessary. In today’s fast-paced business world, the ability to effectively manage the marketing process — beginning to end — has become an extremely important competitive advantage. (Kotler, 2001, p. 40)

It has been theoretically suggested and empirically verified that the ability to measure marketing performance has significant impact on firm performance (e.g. profitability and stock returns) and marketing’s stature within the firm (Ambler, 2003; Frozen, Jaakkola, & Vassinen, n.d., pp. 1-6)

Measuring marketing performance is an integral part of the strategic marketing planning process, as shown in Figure 1 and without it this process will be incomplete, the goals will not be achieved and competitive advantage will not be gained.
Assessing marketing performance is an increasingly important task for managers and other stakeholders. There are many reasons for that and some of them are the following. First, many companies are looking to provide fresh growth in profit through increasing sales after years of downsizing (Neely, 2002, p. 22). Second, multidisciplinary perspectives on performance measurement, such as the Balanced scorecard (Kaplan & Norton, 1996, pp. 75-85) are increasing the attention given to non-financial measures of performance in general, raising the issue of which marketing measures, if any, should be included in such schemes. Third, investors and analysts are increasingly asking for information on the marketing performance of companies (Haigh, 1998). Unfortunately, accessing marketing performance is also very difficult to do. Unlike purely internal measures of performance, such as defects per million, marketing performance depends on external, largely uncontrollable actors, such as customers and competitors. Further, it acts as a mediator between these external actors and various internal corporate processes, such as accounting, manufacturing, research and development, and finance.

The numeric imperative represents a challenge, however. In business and economics, many metrics are complex and difficult to master. Some are highly specialized and best suited to specific analyses. Many require data that may be approximate, incomplete or unavailable.

Under these circumstances, no single metric is likely to be perfect. For this reason, it is recommended that marketers use a portfolio or “dashboard” of metrics. (Farris, Bendle, & Pfeifer, 2010, p. 3; Young, & Aitken, 2007, pp. 160-176) By doing so, they can view market dynamics from various perspectives and arrive at “triangulated” strategies and solutions. Additionally, with multiple metrics, marketers can use each as a check on the others. In this way, they can maximize the accuracy of their knowledge. They can also estimate or project one data point on the basis of others. Of course, to use multiple metrics effectively, marketers must appreciate the relations between them and the limitations inherent in each. When this understanding is achieved, however, metrics can help a company maintain a productive focus on customers and markets. They can help managers identify the strengths and weaknesses in both strategies and execution. Mathematically defined and widely disseminated, metrics can become part of a precise, operational language within a company.

2. Theoretical background on marketing dashboards as a strategic method for measuring marketing performance

As formal marketing performance measurement becomes more central to planning and control activities, because it documents and drives the effectiveness of marketing actions, a “dashboard” for senior managers is often becoming integral. The dashboard takes its name from a comparison with the instrument panel of an automobile, which also presents key data in an easily understandable way.

Dashboards create a visual display of all the relevant information you need to measure and refine your current effectiveness in delivering against your goals – and communicate your performance levels in a format that is intuitive to others inside and outside your department. Furthermore, dashboards help you make more knowledgeable, sophisticated decisions about improving your metrics and your future initiatives. (Marketo Inc, 2011, pp. 55-59)

A marketing dashboard is a tool that enables marketers to measure, monitor, manage and maximize marketing results. Just as a car’s dashboard provides the driver with indicators of performance, such as speed, temperature, fuel level, a marketing dashboard provides marketers with indicators of marketing performance. (Srivastava, Reibstein, & Yogesh, 2006, pp. 24-27)

Typically a dashboard consists of at least three layers.

- At the strategic level, marketing activities are measured against business goals and objectives.
- At the operational level, marketing strategies and system performance are tracked.
At the technical level, specific marketing programs, campaigns and initiatives are tracked.

The marketing dashboard helps ensure alignment between marketing performance and business objectives, improves decision making and contributes to the efficiency of marketing investments. (Gallagher, & Kayler, 2009, p. 158)

A well-designed dashboard provides summarized data via a graphical format and alerts users to performance values significantly above or below expectations. For measurement of marketing there are important metrics. Metric is defined as the ability to evaluate economic performance using a comprehensive set of indicators (financial or non-financial). And it is good to know that for the measurement of overall performance should be to use two types of indicators – financial and non-financial. (Jeffery, 2010, pp. 52-187, Farris, Bendle, Pfeifer, & Reibstein, 2005, pp. 305-323; Solcansky, & Simberova, 2010, pp. 755-759)

Once you have the right metrics, data, and analytics, you can develop a multilevel dashboard to manage and report on performance.

The dashboard may be a conventional report or a software product. The dashboard requires that senior management agree to a restricted set of key marketing metrics to communicate and evaluate the company’s marketing performance. The dashboard facilitates control of short-term activities and longer term planning. Objectives and processes should be aligned with the marketing dashboard. (Cravens, & Piercy, 2012)

The attraction of the dashboard concept is to provide decision makers with a reduced set of vital measures in a form that is easy to interpret and apply. Advanced software packages can display critical Information in easy-to-read graphics, assembled in real time from corporate information systems.

Many marketing organizations recognize the need for a marketing dashboard. They have reporting capabilities within their marketing automation, campaign management, Web analytics, and customer relationship management (CRM) systems. Although those reports may provide transactional information, they often do not make a connection between marketing activities and business impact, which is one of the key functions of a marketing dashboard.

Accountability leads to better decisions. Marketing’s performance must be measured, tracked, reported on over time, and adjusted when needed. Accountability means monitoring and reporting, and marketing reporting typically takes the form of a performance dashboard. A good dashboard is a visual representation that demonstrates:

- marketing’s alignment to the business,
- marketing’s contribution to the business, and
- marketing’s ability to reach its performance targets in terms of results, time, and cost.

### 3. Benefits from using and steps of developing a marketing dashboard for measuring marketing performance

According to LaPointe there are five key benefits to employing a marketing dashboard (LaPointe, 2005, p. 25):

1. A marketing dashboard aligns marketing objectives to the company’s financial objectives and corporate strategy through the selection of critical metrics and sharing of results.

2. The marketing dashboard not only creates organizational alignment within marketing by linking all expenditures back to a smaller set of focused objectives; it clarifies the relationships between marketing and other corporate functional areas. It crystallizes roles and responsibilities to ensure everyone understands the interdependencies between departments or functions. The result of all this alignment makes it easy to see, if not directly measure, greater job satisfaction in a culture of performance and success.

3. The marketing dashboard establishes direct links between spending and profits. It uses graphical representations of crucial metrics in ways that begin to show, often for the first time, the causal relationships between marketing initiatives and financial results. It portrays historical data in a fashion that makes it easier for any corporate brain to grasp and understand the implications. The end result of this is gaining a better ability to make smart resource allocations and increase both the efficiency and effectiveness of marketing spending.

4. It creates a learning organization that makes decisions on hard facts supplemented with experiential intuition, rather than battles of intuition punctuated by a few dangerous facts. The real benefit of this evolution is a dramatic reduction in time spent in highly politicized arguments. That speeds decision making.

5. It creates transparency in marketing’s goals, operations and performance, creating stronger alliances outside the department. This elevates
marketing’s perceived accountability to earn the trust and confidence of the managers and other key decision makers throughout the company.

Regardless of how sophisticated a company is at measuring its current marketing efforts, the dashboard can make it better. It is a very accommodating tool. It benefits from, but does not require, a high degree of sophistication of analytics. It does not require that there be a robust IT infrastructure. It does not require any special skill set at all — other than the ability to determine what's important to measure.

Once a company has made the decision of creating a marketing dashboard, it should go through with the following five steps in order to have a quality product that has significance in the everyday and strategic decision making processes. (Patterson. 2010)

First step: The company should align marketing to business outcomes
The first assignment that should be completed is to map the relationship between marketing programs and business outcomes. This helps the organization to clarify marketing’s role whether its role is to build brand preference, generate qualified opportunities, retain customers, drive product adoption, enhance the customer experience. Also by completing this step the company can identify where marketing is and is not aligned with the organization. Lastly it will help identify key metrics. Once the company has defined the role of marketing, it can easily know what to measure. This step is important because it helps the marketing team identify the priorities.

Second step: Choosing the proper metrics (indicators)
The company should select the metrics that will be used to measure marketing’s impact, efficiency and value. For many organizations, metrics relate to how well marketing is affecting market share growth, customer value, and customer equity. Typically, a company will have metrics from the following categories:

- customers (acquisition, retention, value),
- product (adoption, innovation, price, and margin),
- competitive positioning (market share, brand preference),
- and financial (budget, payback).

It will be important to have quantifiable business outcomes and measurable marketing objectives to facilitate as a result of this step.

Third step: The company should document the data chain
The people responsible for the measurement process should create the data chain between the marketing activities, programs, and objectives, and the business results. The data chain helps visualize the link between marketing activities (such as an email campaign with a call to action) and marketing objectives (some number of qualified leads), and the business results (such as new opportunities added to the pipeline quarterly), and any assumptions that your organization makes between those.

Fourth step: The company should acquire the data
The company should identify the data sources and secure the data. Measurement requires data, which means the company should know what data is available and what data is missing. This step helps ascertain whether there are any data gaps that may impede marketing’s ability to do measurement. If gaps are identified, the team that is responsible for marketing performance measurement should discuss whether to use proxies, change what is being measured, or make some kind of investment to obtain the needed data.

Fifth step: The company should validate and review
The team should develop an alpha dashboard to validate the data and the measurement process. This step is critical for validating the data chains and determining whether the dashboard captures the performance information that is required. This step will further help the company define what it may want in a dashboard tool; it will also help define and establish the measurement and reporting process and systems. Once the alpha is created, it can be decided what changes, if any, need to be made to the dashboard, measurement, and reporting processes. Developing a marketing dashboard takes some effort, but the work associated with the five steps outlined above will pay back many times over.

Also an important aspect of creating a marketing dashboard is proving the building blocks or data that is used in the building process. Acquiring data is not the challenge many organizations
are facing these days. Information overload is a part of everyone's life. The trick is to gather essential information without getting bogged down by information that isn't helpful. The best way to do that is to align business outcomes with your marketing efforts so you can focus on metrics that matter to you and the rest of the leadership team. Those outcomes and associated metrics are the foundation for your dashboard. Everything on the dashboard should, in some way, tie back to those outcomes and metrics, and show how well marketing is moving the needle.

For many companies, data access and management is often the biggest challenge in the adoption and use of metrics. Many organizations struggle with data accuracy, integrity, and consistency. Once a company owns the adequate data, it will be able to connect and use it to construct a dashboard, perform analytics, and, ultimately, make better decisions.

Although businesses say that they believe in the concept of using analytics to drive decisions, a Bloomberg Businessweek Research Services study of 930 businesses across the globe in various industries found that only one-in-four organizations believes its use of business analytics has been "very effective" in helping to make decisions.

Though more than half of the companies in the survey said they rely heavily on data and metrics to make decisions, many admitted that intuition and business experience still tip the scale in decision-making. Once you have your data, analytics, and metrics, you have the building blocks for creating your dashboard.

The test-and-learn approach we often apply to various marketing initiatives also applies to creating a dashboard:

- **Start with a pilot, and create an alpha version.** You will learn a lot about your metrics, data, and analytics capabilities and processes in this step.

- **Address the gaps, and create a beta version.** Float this version with some key stakeholders, and solicit their feedback and input.

- **Adjust, and go into a more formal pre-production process.** At this stage, you should begin to think about process adoption, internal skills development, automating data feeds, and evaluating business intelligence and dashboard software.

Always keep in mind that for your dashboard to be an accurate representation of your organization it may need to change over time. Your dashboard must be able to keep up with anything that will affect your marketing efforts.

For strategic decision makers, the marketing dashboard should contain metrics related to the main business drivers, the factors that directly and predictably affect performance, and should reflect the pipeline of growth ideas — how knowledge of customers is translated into a strategy for sustaining growth — and review the marketing talent pool. The main business drivers might include share of customer wallet, or retention, compared to competitors. The pipeline of growth section could indicate new products in the pipeline and expected revenues and profits from them. (Cravens, & Piercy, 2012)

At an operational level, managers might choose dashboard metrics more closely related to strategy implementation. For example, figure 2 shows marketing dashboard for the senior managers at a manufacturer of branded luggage distributed through retail stores, over a 4 year period, showing five critical measures. The brand shows strong sales growth and has maintained its margins at attractive levels, even though selling less expensive items. However, returns for the retailer have fallen dramatically, while inventory levels at the retail level have escalated. Sales per store have fallen substantially. The price premium for the brand has fallen and a growing proportion of sales are on promotional deals. The metrics underline concerns about the company’s ability to maintain its distribution without revising these trends, knowing that weaker distribution will hit future sales and margins.
4. Analysis of empirical data obtained from research

The main empirical research was carried out in the interval October to December 2012 on a sample of 30 companies. The additional research was conducted from February to March 2014 and the same sample of companies was asked about the use of strategic methods for measuring marketing performance with a special focus on marketing dashboards.

Of these companies, 6 or 20 % were micro-companies with 1-9 employees, 11 or 37 % were small with 10-49 employees, 9 or 30 % were medium sized companies with 50-249 employees and 13 or 4 % were large companies with over 250 employees. In this period of over one year one of the small companies was shut down and the total sample had 29 companies. This question was very important for the other answers, and based on the answer to this question with great certainty, although some exceptions occur in some companies, we can predict the answers to the questions that follow. This is due to the fact that the larger companies that have more staff, are more likely to have an organizational structure in which marketing would accordingly took place, and would act as a separate sector, or within any other sector it would be possible to integrate marketing activities. By contrast, in smaller companies, particularly micro-companies that have several employees, usually there are no conditions for organizing a marketing sector, and marketing activities are performed by any of the employees or for them usually the person in charge is the general manager. In 47 % of the companies there is a marketing sector, as a separate part in the organizational structure, and in 53 % of the companies there is no marketing sector.

The survey had a special section dedicated to marketing performance measurement and the staff responsible for conducting this process. In 53% of the companies from this sample marketing performance was measured by the general manager who is responsible for a lot of different activities and cannot focus and have the proper knowledge to carry out a good measurement process. This data is compatible with the number of companies that do not have a marketing sector as a special part in their organizational structure. In only 23% marketing performance was measured by a marketing manager, which leads to the question, what marketing managers (in the rest 24% of companies that have a marketing sector) do if they do not measure marketing performance. This leads to a conclusion that marketing and its role in companies in Macedonia has a very different meaning from other more developed countries. In 17 % of the companies the measurement is conducted by a person employed in the sales department, especially in small companies, and in 7% of the companies marketing performance is measured by finance managers. This data is concerning, because people in sales often do not have the proper knowledge, whereas finance managers always prefer tangible to intangible assets which can lead to marginalizing marketing from the company’s investments.

In those companies that measure marketing performance, the main focus is placed on financial indicators such as profitability, NPV, IRR and ROMI, whereas from the non-financial indicators most of the companies measure customer satisfac-
tion and brand performance. In addition most of the companies said that they prefer the long-term (strategic) marketing performance measurement to the short-term measurement which is incompatible with the previous responses because they do not have the proper marketing sector and marketing managers to conduct such measurement processes.

Additionally, in most of the companies, marketing performance is measured once a year, which is not effective because more frequent measurement leads to potential of taking corrective measures if the undertaken activities are not effective and do not contribute to achieving success. Marketing dashboards allow companies to have a view of their marketing performance in every moment and give the opportunity and proper data to take corrective measures if needed.

None of the companies in the sample uses this strategic method for marketing performance measurement or has developed its own to make marketing performance measurement more clear and understandable for all employees.

The potential for application and implementation of this method is considerable, but proper education and training is required to have optimal results.

**Conclusion**

The theoretical and empirical aspects of this paper can lead to a conclusion that marketing dashboards are a very important strategic method and tool for conducting an effective marketing performance measurement process, but they are not used properly in companies in Macedonia due to the lack of knowledge and the position of marketing in the decision making process. Marketing’s role in our companies is not of great importance and most of the time marketing managers, or the staff that is responsible for marketing, is working on other administrative aspects and has no exclusive focus on marketing activities.

This leads to poor marketing investments and efforts and a lack of proper marketing performance measurement which additionally affects the possibilities of growth. If marketing cannot show that it contributes to the overall company’s performance then it will not get the proper funding and attention and our companies will remain small and not competitive on our market and internationally. Marketing performance measurement is the starting point to growth and this should be understood and implemented by managers and company owners.

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ERP & Globalization: Challenges and Responses

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Abstract
Globalization, as a term which refers to the processes of international integration, has brought along a number of business and technological challenges. Supply chain applications are at the forefront of discussions that center on globalization. But ultimately, corresponding transactions are captured in the back office; and that means core ERP must be able to deal with issues such as currency exchange, multi-site and multi-company transfer of inventory, consolidation, localization, and translation. Enterprise Resource Planning (ERP) is a mission-critical component of any globalization strategy. Enterprises aiming to compete in the global marketplace need to be able to comply with international financial and legal requirements – they must be able to think globally but at the same time act (and comply) locally. Enterprises cannot focus on gaining competitive advantage if they struggle to integrate their own international operations. Internal operations must be integrated before interoperability can be achieved on a global scale. The more seamless the integration, the easier it is to manage governance, risk, and compliance. In this paper we provide an overview of business and technology challenges associated with globalization and the way that ERP system developers respond to them. The key functionalities required to support a multi-national ERP implementation are listed and different approaches to the delivery of these functionalities are compared. The paper highlights the benefits of using advanced integration technologies, such as Service Oriented Architecture (SOA), instead of traditional point to point interfaces between applications.

Keywords
ERP, globalization, SOA.

1. Globalization as a phenomenon
Regardless of how the world is seen - as flat or round, the impression one gets is that it is somehow becoming smaller. This phenomenon is not the result of a physical compression of the planet, it is a reflection of our subjective feelings arising from the substantially altered perception of time and space, as well as our awareness of the interconnectedness and interdependence of the national economic, financial, environmental, and other systems. The twentieth century brought an exemplary progress in the field of transport and communications, which gradually created conditions for easier movement and connectedness of people and goods. These tendencies, along with certain political changes, have enabled companies to expand their markets far beyond the borders of national economy. The possibility of exploiting new markets was initially seen by the developed countries as a major opportunity to increase profit through new sales. However, the economies of the developed countries were soon to face an entirely new challenge due to the increasing “invasion” of cheap products coming into their markets from countries with significantly lower labor costs. Response of the developed countries to this phenomenon is seen in the trend of moving manufacturing and other facilities to countries with cheaper labor costs (sourcing), or entrusting the execution of individual activities or complete production processes to the companies located in countries with lower labor costs (outsourcing). This enables businesses to reduce the costs of goods and services, but at the same time results in a greater
complexity of the supply chain and leads to some specific problems arising from cultural, regulatory and other differences.

Globalization is a complex phenomenon that is now increasingly associated with the transfer of knowledge, skills and technologies at the international level (Archibugi & Lundwall, 2001). It is not difficult to see that this type of transfer is gaining prominence in the world economy over the transfer of material goods. Share and importance of knowledge-based goods (goods that are associated with intellectual property) are continuously growing in the world economy; foreign direct investments performed by transnational corporations are becoming increasingly important means of transfer of innovation around the world (UNCTAD 2001) and cross-border scientific and technological cooperation is becoming ever more demanding in terms of public and private sectors resources (Gambardella & Malerba, 1999). A number of authors share the opinion that the growing body of knowledge, as a result of this transfer, opens up completely new possibilities for developing countries to reduce their backlog (Archibugi & Pietrobelli, 2003).

The impact of globalization processes on society can be analyzed from different perspectives such as people, culture, property and risks (Center on Law and Globalization, 2014). The migration of people is a phenomenon as old as mankind itself. People have migrated seeking better conditions for survival and the possibility of a better quality of life. However, migration processes today are significantly different in terms of their quality and degree than they used to be. The possibility of faster movement of people and goods which has led to the changed perception of geographic distances are features of the new vision of the world in the era of globalization. Traveling is much more individual in character than before. In the past, migration was associated with the movement of larger or smaller groups of people (e.g. ethnic groups) because in order to travel longer distances people needed protection of the family or of a larger community. Today, migration is mainly linked to the movement of individuals, mostly young people, in search of better living and working conditions.

After the “cold war” period, political barriers were reduced substantially and state borders have become more “porous” thus allowing markets to expand more freely. The fact that people are less limited by political boundaries is seen in the increasing number of people (in some parts of the world) who live in one and work in another country.

The development of information and communication technologies (video conferencing, Skype, etc.) has enabled direct interaction between people without the need for physical presence. The actual journey is now frequently replaced by a much faster and cheaper virtual journey.

The growing presence of companies with operations across political boundaries is primarily motivated by economic aspects but such economically motivated expansion also has its side effects, namely the dissemination of culture and law. Movement of capital across national borders is of increasing importance for the functioning of the world economy. The period following capital market liberalization that started in the 1970s, is characterized by a significant growth in private equity investments which today represent a substantial source of capital from international financial institutions. Globalization of finance and resources has different, often contradictory effects. On the one hand, the expansion of markets beyond national borders creates the need for international regulations and standards which are prerequisites for international market stability. On the other hand, private capital can both enter and withdraw from national economies in a very short period of time, which may have sudden and dramatic destabilizing effects.

According to Lawrence Friedman, globalization is closely associated with the global spread of culture and is of cultural nature in its essence. Common culture is characterized by shared assumptions and notions that allow the global spread of ideas, information and material goods. Information and Communication Technologies (ICT) have an important role in the creation of common culture. Personal computers, the Internet, mobile phones and other ICTs have, on the one hand, enabled quick and easy access to the vast amount of human knowledge, but at the same time they allow people to independently create and globally disseminate information at a negligible cost.

2. Characteristics of global business

Organizations that aim to seize the opportunities offered by globalization processes use different strategies to achieve their goals. Bartlett & Ghoshal (1998) identify four strategies that are available to multinational corporations. In the process of becoming truly global, organizations usually take the following sequential path marked by the
following strategies: from multinational to international and then from global to transnational corporations.

In the case of a company that follows a multinational strategy, its foreign subsidiaries operate almost independently or in a loose connection, in order to be able to promptly identify and respond to different local needs and national initiatives. In this model, supply chains are duplicated and local units have a high degree of autonomy. A company that employs international strategy is engaged in the diffusion and adaptation of the parent company knowledge in its affiliated companies. The basic principle of operation in such organizations is speedy implementation of innovation in all its parts.

By contrast, in a corporation that pursues global strategy, its headquarters has central control and its activities are closely coordinated across the world in order to take advantage of a common product design, global scale production and centralized control of uniformed processes and activities which are performed in the exact same way in any part of the world. In accordance with this strategy, the company is based on centralized funds, resources and responsibilities. Decisions remain decentralized but at the same time are under strict control of the headquarters and consistent with the achievement of global efficiency and effectiveness.

The above mentioned strategies are focused on integration and control and each of them seeks to make a step forward with regard to these issues in comparison with the previous one. Bartlett & Ghoshal (1998), but also others (Iwan, 2007), find that the global model should be replaced by a more complex and flexible one due to the increasing complexity of the environment, technological changes and the emergence of large integrated markets. This new organizational solution is commonly referred to as transnational model that tries to combine the need for integration and control on the one hand, with the flexibility and sensitivity in relation to local needs on the other hand.

There are a growing number of organizations that have global character. These organizations operate in different countries and in different locations: they have their business units, manufacturing facilities, regional sales offices, distribution warehouses, national, regional and global headquarters scattered throughout the world.

When an organization expands its operations into a new country, it faces a number of operational challenges. It has to adapt to the legal and business principles of the country: legislation, reporting obligations to government and other agencies, tax system characteristics as well as employee rights. It is usually necessary to support an additional language, currency, and best practices of local character. Business operations may become even more complex because of the fact that operational units existing in different countries, under national legal provisions, must be established as separate legal entities. This may make internal transactions much more complex (for example a logistical transfer of inventory between different entities of the same company must be treated as a purchase or sale).

Apart from meeting local demands, organizations operating globally must provide a certain degree of integration of business operations that take place in different countries, with the aim of improving operational efficiency and providing support to all levels of decision making processes and compliance initiatives. It is impossible to achieve these goals without adequate business process management of such organizations and the use of information and communication technologies.

3. It and globalization

Information technology is considered one of the most important driving forces of globalization, which is also recognized in expert literature focused on information systems through emphasis on interconnectedness between information technologies (IT) and globalization (Hanseth, Ciborra, & Braa, 2001). Technological development in the field of hardware, software and telecommunications in the early 1990s has led to significant advances regarding information accessibility and the growth of economic potential in all sectors of the economy. IT provides a communication network, which is the basis of the spread of products, ideas and resources between economic and other entities irrespective of their geographical location. By creating efficient and effective channels of information exchange, IT has become a catalyst for global integration. While most authors emphasize the importance of IT in terms of the origin and development of global processes, there are those who point to the retroactive effect: globalization processes have largely contributed to heavy investment in the IT sector and the spectacular development of IT technology in the last two decades. Therefore, some authors have concluded that IT and globalization processes should
be seen as two sides of the same coin due to the extent to which they are interconnected (Sunarno, 2001).

In their study on IT management and global companies Ives & Jarvenpaa (1991) have identified four generic approaches for managing global IT, which they find to be aligned with the strategies of Bartlett & Ghoshal.

One approach is an independent global IT support, according to which subsidiaries use independent systems and undertake independent initiatives while shared systems are an exception. The influence of local suppliers and national communication standards is largely reflected in the choice of technology, which usually results in a low degree of hardware and software integration at the corporate level. This approach has features that are similar to the multinational strategy, with focus on local resources, solutions and patterns of behavior, and portfolio of applications tailored to local requirements.

The second approach is a global IT managed from a single location, and within which all parts of the global organization use the same IT solutions. A number of global companies are forced to implement global system solutions by actual business needs and the desire to maximize the benefits of economies of scale. This approach is in line with the global strategy and is the preferred choice of many corporations that have opted for this type of strategy. What Ives and Jarvenpaa also point out in their study is that such centralized global IT approach often leads to serious problems if not stemming from actual business needs.

These two approaches can be seen as two extremes, each of which has its advantages and disadvantages. The first approach makes it easier to comply with local requirements but provides little support to global networking of corporate business flows and processes. In contrast, the second approach emphasizes the unity and uniformity of solutions which makes the integration of operations and data consolidation much easier, but at the same time it makes it difficult to promptly adapt to new local conditions. In an attempt to combine the benefits of both of these approaches to the greatest possible extent, the matrix approach has been developed, which is considered to be the most suitable one for the implementation of the transnational strategy.

4. The role of ERP systems in globalization

As noted above, globalization has brought a number of business and technological challenges. Overcoming the barriers of national markets and their integration into the global market along with significant shifts relating to competition require strategic responses from organizations. Efficient and targeted use of all available organizational resources is gaining more importance than ever before and this cannot be achieved without business process management and the use of the global network. Global networks have become an infrastructural platform that connects individuals, corporations and the public sector in all business processes. Information and communication technologies, particularly ERP systems, are to ensure flexibility of the company and create the environment for achieving strategic advantages of integration processes in general.

ERP systems are considered the backbone of any organization's information system and critical component of corporate globalization strategies. Organizations that strive to compete in the global market need to coordinate their operations with international financial and legal regulations – they need to be able to think globally and act locally at the same time, in conformity with national rules of business. An organization cannot focus on achieving competitive advantages of globalization as long as there are difficulties in integrating the operations conducted in different countries. Bartlett & Ghoshal (1998) agree with this view and believe that organizations operating in the global market may be put at a serious strategic disadvantage unless they are able to control their international business and manage their business operations in a globally coordinated manner. Global interoperability can only be achieved by ensuring the integration of internal business processes and their activities.

In discussions on IT globalization support, it is commonly associated with supply chains and their software support (Ahmed, Qadri, Shahzad, & Khilji, 2011; Johnson, 2006). Even though the importance of the supply chain management systems is undeniable, they can only be effective if supported by adequate ERP systems that comply with the requirements of international business. A good ERP system is a necessary foundation for building an efficient supply chain management system, which represents a kind of an upgrade of the ERP system. An ERP system that aspires to meet the demands of globalization must
support functionalities such as multi-currency operations, intercompany stock transfer, data consolidation, software localization, overcoming language barriers, and more.

Companies with business operations in different countries are compelled to function as multiple entities. Differences in the way of keeping the ledger, different currency systems and other specific characteristics of individual countries pose a major challenge for ERP systems in terms of meeting the needs for consolidated presentation of the results of operations, both through financial and non-financial performance indicators. According to a survey conducted by Aberdeen Group (2007), two major priorities of global companies are the ability to use the same version of the ERP system in a variety of financial and legal systems and global data consolidation support of multiple installations.

Although in the aforementioned research most companies marked the use of a single instance ERP system as a preferred way of operation, this solution is not considered the ultimate requirement of standardized global ERP implementation. The research of Aberdeen Group that focused on ERP topology of companies operating globally also indicates that this indeed is not the standard. As seen in Figure 1, only 22% of globally operating companies use a single instance ERP that supports all global locations which obviously suggests that it is not to be considered standard solution. The next 22% of companies have a single instance of ERP package but, unlike the previous group, this instance does not support all international locations of operation. The conclusion of this study is that more than half of the companies use the topology of the global ERP support which is not considered optimal and which includes multiple instances of the same ERP package or even different ERP packages in different locations.

![Figure 1: ERP topology structure of global companies](Source: Aberdeen, 2007)

The most common reason for using different ERP packages within a global company is in connection with the manner of its growth which is the result of mergers or acquisitions. This kind of growth implies that the ERP system of a “newcomer” is inherited along with its other resources.

For some companies this is not really a problem, because regional business units are permitted to self-select a system that suits them best. In the case of such companies, their local offices have their own accounting (and other) systems that correspond to their local business practice. These systems rarely communicate with each other while global business relies on external systems such as electronic spreadsheets or electronic reports, which are used to consolidate the management and financial information. The research conducted by Aberdeen Group indicates that 71% of large companies have implemented more than one ERP package, while 26% of them use as many as 4 or even more different ERP packages in some of their units.

The advantage of the strategy that enables business units to independently select ERP (and other IT) solutions is that each unit can select an application that suits their needs (given their role, size, and other specifics). Most specialized systems have a simple, generic kernel tailored to the specific needs of the user. This kind of system design that fits the user provides a high degree of concordance between software solutions and business needs (like custom-made clothes and ready-made models). Local systems (services of their suppliers) may prove significantly cheaper in terms of implementation and maintenance in comparison with large systems that support global organization.

The lack of multiple applications in some business units is seen in different data formats and identifiers that often refer to different time periods; there is no consistent master data and a whole range of other problems that make easy data integration virtually impossible. This rather complicates the provision of consolidated indicators for the needs of global business decision-making and data follow-up to the level of individual transactions. Consolidation can only be achieved through subsequent data integration, which is a kind of an upgrade of autarchic systems but the costs of this type of integration are usually very high. Another major drawback stems from the fact that local systems are not an environment in which the advantages offered by standardization at the global level can be exploited to the maximum.

Organizations are becoming ever more aware that internal operations must be integrated
globally in order to achieve global visibility and transactional interoperability as well as to enable more efficient management of the global corporation and its business risk. As a result, a growing number of medium-sized and large companies are trying to consolidate their applications and in doing so, many of them aim to have their worldwide operations based on a single ERP solution. This strategy promises the formation of a single (or at least uniform) data repository for all business units and their processes, as well as the advanced capability of financial and other reporting and analysis.

Some of the main advantages of consolidation based on a single ERP solution are the integration of resources and elimination of redundancy. A unified database for all business functions enables the generation of consolidated information from the level of the headquarters to the level of its lowest affiliates. This allows managers to drill down to the level of the headquarters to the level of its lowest affiliates. This allows managers to drill data from consolidated indicators to individual transactions regardless of the place of their origin.

Even though operation based on a single instance ERP system is the most desirable option for most of the global companies from the research of Aberdeen Group, less than half of them (44%) actually use this topology. Cost and complexity of application are some of the most common reasons why companies are reluctant to start to use single instance ERP systems. If the branches are located in the same region or country, the problems are not so big. If a solution can be standardized in all operations with the same structure of financial reporting, it may be installed fairly quickly and inexpensively. But, if the same ERP solution must be applied in different countries with different currencies, fiscal, or legal requirements, majority of organizations hold the stand that the costs of product configuration and its ongoing operational support exceed the expected benefits of moving to a single ERP solution. Another thing that should be noted is that many ERP solutions are too complex and, as such, unfit to support less complicated needs of certain units, especially those in remote countries. Therefore, despite best intentions, organizations are often faced with long periods of single ERP implementation in all of their global units.

Even if reluctant to start to use a single ERP solution, organizations generally tend to reduce the number of simultaneously used ERP solutions in order to enhance interoperability of their transactions. At the same time, the preferred ERP solutions are those that offer scalability and adequately support global implementation. Regardless of the number of ERP solutions used, there is a consensus that organizations cannot ensure global growth without building an architecture that supports global visibility and transactional interoperability. Integration technologies and service-oriented architecture (SOA) are frequently overlooked as a criterion in the selection of ERP solutions. In fact, the emergence of SOA reopened the question of how purposeful and justified it is to insist on implementation of a single ERP solution in global organizations and led to the emergence of the matrix approach which allows, in certain cases, the use of less complex (or more appropriate) ERP solutions besides the “standard” ERP solution, while integration is achieved through SOA.

4.1. ERP globalization support as a set of specific functionalities of the system

Globalization support has become a standard set of functionalities most of the well-known ERP solutions. This support should enable users all around the world to use the same ERP solution while showing them the content in local languages and in accordance with local preferences. Multilingual applications with multilingual database content are a prerequisite for the global implementation of ERP solutions.

For an ERP solution to be multilingual, it has to rely on a database management system (DBMS) that supports storing, updating and retrieval of multilingual data. In order to make this possible, modern DBMSs support Unicode standards; provide advanced techniques of data sorting and indexing (linguistic sorting/indexing in addition to binary ones) and have the ability to show data in accordance with local preferences in terms of data display format, delimiter signs and other national characteristics.

National Language Support (NLS) within the DBMS implies that the error messages, as well as the monetary, calendar and other conventions automatically adapt to the user language. When it comes to correct sorting, multilingual ISO standard (10464) specifically developed to simultaneously support multiple languages is of special importance.

By relying on these DBMS possibilities, developers of ERP solutions have raised globalization support to a higher level. An ERP system with pretensions to be used as a global solution must offer user interface (with labels, messages and other software objects) in different languages and
with the possibility of localization in terms of national numerical, calendar and other preferences. Along with a growing number of implementations in different countries, ERP system developers have become more familiar with the specifics of national legal, financial and other systems and offer extensions of their standard modules that are tailored to fit their use in particular countries. For example, SAP ERP Globalization Extensions 607 includes localization projects for the following countries (SAP, 2014):

- China
- Kazakhstan
- Kuwait
- Qatar
- Russia
- Saudi Arabia
- United Arab Emirates

that provide additional functionality for the following applicative components:

- Accounts Payable
- Accounts Receivable
- Asset Accounting
- Flexible Real Estate Management
- Funds Management
- General Ledger Accounting

A detailed description of new and enhanced functionalities by country can be found in relevant documents (SAP, 2014). These “nation-oriented” extensions aim to achieve statutory compliance, which is considered to be the biggest challenge for ERP globalization support and it implies conducting business operations in accordance with the local (national) legal, tax and accounting rules.

What should be kept in mind is that globalization also creates the need for other types of functionalities within ERP systems that do not relate to national specificities but are in connection with business regulations among legal entities from different countries despite the fact that they belong to the same multinational corporation. Globalization support enables ERP system to recognize and treat accordingly the transfer of inventory between subsidiaries, depending on whether they are located in the same or in different countries. In the case of different countries, subsidiaries are considered separate legal entities and the transfer is to be treated as a regular transaction.

**Conclusion**

Globalization is a complex phenomenon with a number of driving forces and implications for society. Regardless of whether you are a proponent or opponent of globalization, it cannot be ignored. ERP system developers are fully aware both of this as well as of the dual role of their products. ERP technology is now considered a basic IT technology and, as such, is one of the drivers of globalization, but at the same time it is also subject to the impacts of globalization processes. ERP system developers need to meet the new demands of their users who aim to exploit the potentials of globalization in terms of maximizing profits.

Global operations of an organization can be supported by a variety of topologies of ERP support, each of which has its own advantages and disadvantages and may be suitable to a certain category of organizations. There is no a priori the most adequate topology, as it needs to be chosen by taking into account the specificities of a particular organization. If an organization aims to achieve its competitive advantage through the economy of scale, it necessarily needs to standardize its business processes and is a good candidate for implementation of a single ERP solution for the entire organization. Advanced data integration technologies along with the emergence of SOA have, in the case of these organizations, challenged the imperative of a single ERP version, and there are a growing number of those who advocate the matrix approach, which is much more flexible than the traditional centralized and decentralized systems. This is why one of the basic criteria for ERP system selection should be its SOA support.

**References**


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Building Competitiveness Through Globalization: the Impact of Consumption Convergence

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Abstract
Being a consumer is a learned behavior. As much as consumption patterns are transferred through the process of socialization, especially at younger age, through the dominant influence of the nuclear family, differences in consumer culture are apparent. Attitudes, values and preferences change in early adulthood, stressing the intergenerational gap. We aim to investigate the differences in consumption patterns between members of the same family that belong to different generations, specifically parents-children. We will access their preferences towards different groups of products, with the intention of stressing the impact of democratization of information access and globalization as a vehicle of market integrations. The research will cover the product/service groups identified by literature as “cultural product categories”. The impact of globalization will be measured by implementing basic tests of differences on two generational cohorts, searching for preferences towards global versus local products. We will investigate, more closely, the presence of consumer ethnocentrism in different economical conditions (developed vs. developing economy) and between different generations (parents vs. children). Research will be conducted in Serbia and Austria, aiming to discover the behavioral patterns in consumption and their change. Managerial implications are related to creating marketing strategies that respond the best to consumer preferences in different industries, age groups or geographies, especially uncovering consumption convergence, that can exploit economies of scales in production and/or marketing. Interestingly, debate about existence of global culture does not lose its significance and the opinions are polarized regarding the processes that shape the contemporary societies and markets.

Keywords
Globalization, consumer behavior, consumption patterns, ethnocentrism, convergence.

Introduction
Almost every day, customers come across a few hundred products on store shelves. On a daily basis, they make a number of buying decisions. For every company out there it is of the utmost importance to understand the purchasing patterns of the customers, their needs and desires, but nonetheless motives and a complex web of influences on their decision making process. Globalization seems to be a dominant force that shapes the world today (Veiga & Floyd, 2001; Alden, Steenkamp, & Batra, 2006; Tu, Khare, & Zhang, 2012; Westjohn, Singh, & Magnusson, 2012), and in this ever changing dynamic landscape of the contemporary markets, information and knowledge are the most valuable assets. Targeting different geographies with their marketing effort, companies are nowadays, more than ever, interested in understanding how the customers perceive their value proposition, especially customers belonging to different cultures. What are the similarities and differences between nations in making purchasing decisions? How do the consumption
patterns evolve and change over time? Should companies standardize their marketing mix or adopt it to fit preferences of the target market? These are just a few questions in an ongoing debate that certainly can make or break a business. Answering these questions calls on, as Pankaj (2006) advises, deep understanding of differences (and similarities) in culture, administration, geography and economy. For a great many companies today, the decision to target diverse geographies is the question of survival, and in these circumstances consumers can’t be observed through characteristics, behavior, and cultural habits, practices and the environment of one specific nation market anymore, because the global market is regarded as a major business playground where all countries are connected on a large-scale through resources, business strategies and goals.

Creation of the world where the “global citizen” is an increasingly present paradigm suggests that, for marketers, some new market opportunities and circumstances have just emerged, and that marketing and business approaches should be more resilient, open-minded and imbued with multiculturalism, in accordance with their target market.

The aim of this paper is to contribute to further understanding of consumer behavior and consumption patterns in the global marketplace. Conceptually, one part of the research will be following research on the differences between developed and developing countries related to acculturation to global consumer culture (AGCC) and ethnocentrism (Cannon & Yaprak, 2002; Cleveland & Laroche, 2007; Strizhakova, Coulter, & Price, 2008; Guo, 2013), as well as attitudes towards global (AGP) and attitudes towards local products (ALP) (Steenkamp & de Jong, 2010). Taking into account the dynamic nature of markets, in constant flux, the quasi longitudinal component will be introduced by measuring differences in consumption patterns between different generational cohorts, by administering the same research instrument to two generations of the same family (parents/children). The starting premise being that consumption is a learned behavior (Ward, 1974; John, 1999; Shankar, Whittaker, & Fitchett, 2006; Kotler, Armstrong, Wong, & Saunders, 2008) and that family represents one of the most influential social groups in shaping behavior (Carlson & Grosshart, 1988; Palan & Wilkes, 1997; Moore, Wilkie, & Lutz, 2002; Cotte & Wood, 2004).

1. Literature background

In the origins of globalization was the outreach towards access to resources (labor and raw materials), but mass production and the ability to produce vast numbers of products (Csikszentmihalyi, 2000; Shankar et al., 2006) pushed globalization juggernauts towards conquering new geographical markets. In either case, efficiency and competitiveness were the underlying motives. Whereas access to inputs was more on the manufacturing side, interest in foreign customers brought marketing to the forefront of contemporary globalization. The debate on the level of integration of world markets is still ongoing, controversies even further fueled by different outlooks onto globalization benefits, from the business perspective (Levitt, 1983; Yip 1989; Craig & Douglas, 2000; Balabanis & Diamantopoulos, 2004; Steenkamp & Jong, 2010), and the society perspective (Appadurai, 1990; Fýrat & Vicdan, 2008; Riefler, 2012; Laroche & Park, 2013).

1.1. Globalization

Changing and challenging landscapes of the contemporary world are neatly described by a National Geographic journalist Zwigle at the end of the 20th century “Goods move. People move. Ideas move. And cultures change.” Plethora of authors today engage in meticulous research trying to explain multiple facets of the globalization process and its impact on humanity, ranging from mundane economic and business questions, to a more profound impact on culture. Pankaj (2006, p. 32) calls globalization discourse “apocalypse”, in, as he states, both meanings of the word “…revelation to a privileged few of something hidden from the masses…” and “…abrupt transition from present age to future age, accompanied by great, upheaval and extreme outcomes”. According to him, in real life, practical aspects of globalization were far less dramatic (see Figure 1.), concluding that the internationalization process is of slower pace and more limited than expected.
As much as the body of literature on globalization is vast, famed Levitt’s article from 1983, and Yip’s 1989 drivers of globalization are in the forefront. However, as far back as in 1968, Buzzel had mentioned the flow of communication across national boundaries using radio, television, magazines and newspapers, with one major aim - reaching international audiences and operating on a multinational scale. According to the author, “…social and economic trends are working in favor of standardization in marketing policy. Tourism, international communication, an increased number of multinational consumers is tending toward greater unification of multinational markets.” (Buzzel, 1968, p. 107). In order “to achieve the benefits of globalization” (Yip, 1989) companies need to recognize conditions favorable to developing a global strategy, and Yip classifies them in four categories: market, cost, governmental and competitive drivers. A more contemporary adaptation of these drivers can be found at Kotabe and Helsen (2010).

The authors minutely pointed out specific aspects of each one, suggesting that, through the cost driver perspective, companies exploiting economies of scale and scope, technology innovations, transportation advances and low cost of labor in emerging industrializing countries, encourage further enlargement and acceleration of the globalization potential. Additionally, the government policies stimulate favorable and convenient conditions for business and market integrations, where the subsistence of companies is determined by the level of global competitiveness. The logical consequence of this process is tailoring a global trade network and tight interdependency of countries (different economies).

Looking more closely to antecedents of globalization, and without venturing to detailed elaboration of various factors, the purpose of this paper and the forthcoming research dictates necessity to look, a bit more closely, at market drivers. According to aforementioned Kotabe and Helsen (2010, p. 255), market forces refer directly to the nature of consumer behavior, and include "convergence of lifestyle and tastes, revolution in information and communication technologies, emergence of rich consumers in emerging markets, growth of global and regional channels, establishment of world brands, spread of global and regional media and increase of international travel creating global consumers more knowledgeable of products from many countries." The common denominator seems to be what Buzzel (1968) and Levitt (1983) already stressed as origins of globalization.

Levitt (1983, p. 92) sees technology as the main driving force of the world, that lead to globalization of the markets through “proletarianized communication, transport, and travel”. Bold predictions about “one world” did not entirely become a new reality three decades later (Pankaj, 2006; Hollis, 2009), nevertheless Mitchell (2003, p. 26) argues that criticism of Levitt’s idea comes from not understanding the fact that Levitt does not necessarily speak about global brands but “on how technologies connect with human needs, and how this affects organizations and markets”. Akaka & Alden (2010, p. 37) argue that “…while deep-seated cultural traditions and values do not appear to be converging, demand for global brands among certain segments remains strong.” Information and communication technology being in the forefront of global diffusion are great example of this idea. The same communicational need, as a share need for humanity, is satisfied with the use of different technologies, i.e. tablet computers – being very close to the idea of a global product, however content accessed via technology will be more “ethnic” than the need or device itself. Not to leave unmentioned, with younger generations there is also substantial convergence related to the content itself (i.e. popular music, movies or video games).

Further substantiation can be found in the work of Zwick and Dholakia (2008, p. 318) who coined the phrase “infotransformation” defined as “dramatic changes in nature, availability and use of information and communication technologies”. This is considered to be one of the major forces that drive transition from local to global markets. A similar discourse is expressed by Kale and De (2013, p. 286) who claim that advances in information and communication technology are leading to “deteritorialization” - the relocation of cultural and social practices to the territory that is not
considered as a place of origin of that cultural and social practices.

It can be concluded that marketing played a major role in fueling globalization from two perspectives, through shaping business strategies that are far more internationally oriented, and through impact on consumer consumption behavior/patterns (Pantelic, Davcik, Zehetner, & Gillpatrick, 2013) worldwide, creating a unique push-and-pull globalization spiral. In perpetual motion, following similar logic of Lewis and Harris (1992) globalization drivers reinforce themselves over long periods, while customers (or citizens!) across the world are becoming increasingly aware of life improvements, enhancing possibilities and liberty that modernity brings. According to that – consumer culture is changing.

1.2. Impact of globalization on consumption patterns: birth of the global consumer

Marketing has always been interested in understanding consumer behavior. Consumption patterns and consumer behavior are influenced by a complex web of factors. Staying on the surface of general phenomenon, the most widely utilized model of consumer behavior is depicted in every marketing textbook (i.e. see Kotler, Keller, Brady, & Goodman, 2012, p. 259).

Culture represents one of the most important drivers of human behavior in social environments, and hence, it is considered to be one of the most important drivers of consumer behavior. Our focus shifts towards a more specific impact of globalization on consumption patterns, and formation of the global consumer. Appadurai (1990, p. 295) frames the problem of globalization of culture between two poles “cultural homogenization and cultural heterogenization.” In addressing dynamic and complex nature Appadurai (1990, p. 297) created a framework for research of the cultural dynamics consisting of:

- Ethnoscapes. The world is witnessing increased movement of people, resulting in “cultural interpenetration” (Craig & Douglas, 2006, p. 323) – An amalgam of interaction of different cultures, that is more than ever exposed to foreign influence.
- Technoscapes. Technology has unprecedented influence on the world today, and more precisely on the globalization process. Technology is intertwined in multiple aspects of Yip’s (1989) globalization drivers, both on the supply and demand side.
- Finanscapes. According to the author, the world experiences complex movement of capital in contemporary economy, especially stressing out relationship between finanscapes and two previous constructs and their mutual interdependency.
- Mediascapes. 25 years earlier, the power of the media and information was already visible, in the world before the Internet, as we know it today. Today, world reality is to a great extent “constructed” reality, based on creating and manipulating information, with multiple channels of its dissemination. Access to media is considered to be one of the key elements that shape global culture (Buzzel, 1968; Zwick & Dholakia, 2008; Kale & De, 2013). The massive impact of the Internet in forming a global “mediascape” is visible in Internet World Statistics from the second quarter of 2012, 44.8 percent of the Internet users come from Asia, followed by 21.5% and 11.4% from Europe and North America, respectively. Middle East and Africa account for only 10.7% of Internet users, these two regions rank top two in their usage growth between 2000 and 2012 (Internet World Stats, 2014).
- Ideoscapes. The meaning of ideoscape ventures is understanding ideologies or values of one culture, as well as how these constructs (i.e. “freedom, welfare, rights, sovereignty, representation, democracy” Appadurai, 1990, p. 299) tend to change and have different meaning in different cultures, which will further have direct influence on the effectiveness of communication with target audiences.

Consumption patterns are learned, our behavior in the roles of customers is learned behavior through the process of socialization (acculturation). Exposure to a certain environment (society) induces adaptation of norms, customs and values, shared by a particular group. “Deterritorialization” brought by globalization enabled the forming of the global consumer culture, Craig and Douglas (2006, p. 322) conclude that globalization has “…altered traditionally static territorially based notions of culture”. Authors Cannon and Yaprak (2002, p. 30) used the concept of ”cosmopolitan” and the phrase “world citizen” together referring to “…a consumer whose orientation transcends any particular culture or setting.”
Whereas, Guo (2013) emphasizes change in cultural horizons of customers, that have an increased sense of mutual interdependency and a broadening of communication channels. Finally, preconditions and the direction of this process might be summarized in Kale and De’s (2013, p. 287) conclusions that “globalization has blurred the links between people, places, rituals, and events”. According to that, global consumer culture can be defined as a set of symbols and behavior related to consumption, commonly understood, but not necessarily shared, by various groups, transcending national borders. (Cleveland & Laroche, 2007; Akaka & Alden, 2010). Nowadays, cultural interpenetration makes segregating national culture from global influences difficult.

Marketing literature findings and market reality suggest that “the role of culture in the consumer decision-making process is still an important area of research in light of the trends toward global markets and the global consumer culture.” (Laroche 2011, p. 931). Research in this field can be tracked in several directions, most dominantly in the country of origin and its influence on preferences and buying decisions (i.e. Balabanis & Diamantopoulos, 2008; Alden et al., 2013), and on a massive scale, on attitudes towards globalization, as well as a choice between global and local brands (Alden et al., 2006; Strizhakova, Coulter, & Price, 2008; Steenkamp & de Jong, 2010; Özsomer, 2012; Guo, 2013).

Global brands are the episteme of the globalization process. Özsomer & Altaras (2008) consider them vehicles of identity and aspirations for the members of the new global consumer culture. Ascendence of the global culture doesn’t import the rule that each consumer shares the same patterns, values and consumption propensity at all (Holt, Quelch, & Taylor, 2004), nor that they will necessarily adopt all the foreign products of global brands (Alden et al., 2006; Strizhakova et al. 2008; Cayla & Arnould, 2010). Nowadays, cultural interpenetration makes segregating national culture from global influences difficult.

The second stream of the researchers follow this idea in identifying different consumer groups, with more dominant orientation towards local or global products. A number of authors (Dinnie, 2003; Strizhakova et al. 2008; Cayla & Arnold, 2008) found out that teenagers and younger adults are more attracted to global brands. Ethnocentric orientation was explicitly expressed by Sharma, Shimp and Jeongshin (1995) with older, female, lower social class, lower income and education consumers. People that are open-minded are considered by Westjohn et al. (2012) to be more likely to purchase global products, Steenkamp and de Jong (2010) found out that favorable attitudes towards global products are typical for people that have strong materialism and innovativeness, whereas attitudes towards local products go hand-in-hand with ethnocentric and nostalgic customers. It is worth mentioning that aforementioned authors identified groups with adverse attitude towards both local and global products, seeing them as conduits of superficial consumer culture.

The third line of research relates differences in preferences towards local and global products to a specific product category (i.e. see Figure 2), which can be related to a number of authors and their conclusions regarding dominance of global consumer culture versus ethnocentrism in buying/consumption. According to Schuh (2007) and Hollis (2009) food and beverages have a stronger cultural grounding. Holt (1998, p. 7) in his research on cultural capital identified several categories as “cultural product categories”: food, clothing, home furnishings, entertainment (music, TV, movies) and lifestyle (vacations, hobbies, sports).
Consumer behavior has been in the focus of marketing’s interest for a long time. Complexity of influences, a so called “consumer black box” and dominance of behavioral research confirm that the learning process is ambiguous, even on the home field. Reaching out to markets outside own cultures brings additional dimensions of complexity. We might argue that, in a certain perspective, convergence of desires is a more precise perspective, instead of taking a much more encompassing claim about convergence of cultures. A question that hunts marketers today is the nature and intensity of globalization, and its impact on consumer behavior in different geographies. Driven to the focus of decision makers, target markets call for diligence in understanding consumers from various (distant) cultures. Following discourse we are eager to investigate differences in perceptions, preferences and consumption patterns between a highly developed nation (Austria) and a developing one (Serbia), and search for justification of hypothesis that differences are also relevant in the intergenerational framework.

2. Methodology and empirical research design

Major research questions are related to preferences, opinions and consumption patterns of customers from different cultures and different generations. The main research questions are the following:

RQ1. Are there statistically significant differences in consumption patterns between citizens of two countries with greatly different economical conditions?

RQ2. Are there statistically significant differences in perception of local and global brands/products between citizens of two countries with greatly different economical conditions?

RQ3. Do differences in perception and consumption patterns exist in two different generational cohorts in the same culture?

RQ4. Are there more similarities in consumer behavior in generational cohorts or inside one culture?

Data collection will be conducted at two universities: the Upper Austrian University of Applied Science, Steyr, Austria, and the Faculty of Economics Subotica of the University of Novi Sad, Serbia. A stratified sample will be used in order to capture different demographics, which will allow us necessary comparisons between groups. The planned size of the sample is 100 respondents from each stratum. Demographic profiles of our respondents should fall in the following four categories:

- student at Upper Austrian University of Applied Science, between 18 and 25 years, native Austrian,
- parent, has child that studies at University of Applied Sciences, native Austrian,
- student at University of Novi Sad, between 18 and 25 years, native Serbian,
- parent, has child that studies at University of Novi Sad, native Serbian.

Students will have the responsibility to interview their parents using the same questionnaire. In order to conduct the research the questionnaire was developed based on ample previous research, with substantial theoretical support.

The questionnaire consists of the three following sections:

- Introduction consists of the short description of the survey, sponsors of the survey and an anonymity clause. The introduction also has screening questions related to selection of respondents (since we would want to capture native Austrians and Serbians, as well as respondents from the same family belonging to two subsequent generations).
- The main part consists of lifestyle/opinion constructs:
  a) related to feelings towards globalization, and
  b) related to preferences for local/global products in different product categories. Constructs were measured by 7-point Likert scale, through series of statements. Theoretical substantiation was found in works of Alden et al. (2006), Cleveland and Laroche (2007), Steenkamp and de Jong (2010), Manrai and Manrai (2011), Riefler (2012), Tu et al. (2012), and finally Westjohn et al. (2012), Guo (2013).
- Classification and sociodemographic questions (age, gender, education, social status).

Scale items related to acculturation to local or global culture are well substantiated in available literature. Additional perspective is introduced by consulting KOF Index of Globalization (KOF, 2014) which represent exogenous measure of globalization for two cultures in our focus. Aus-
Austria is ranked (out of 207 countries) fourth on the overall globalization index, and third related to the index of social globalization, whereas Serbia takes the sixty-third place, and the sixtieth place respectively. Statistically Austria belongs to top of the first quartile, while Serbia belongs to second quartile of the list of countries according to globalization. Indicators of actual flows related to economic globalization, i.e. exports/imports, inward and outward FDI, as well as income payments to non-residents, indirectly show the extent to which national economy is immersed into the global economy. On the other hand indicators of social globalization directly correspond with some of the measures used by various authors to measure acculturation to the global consumer culture (AGCC). KOF Globalization index i.e. encompasses international voice traffic, internet users, foreign population, sum of gross inflows and outflows of goods, services and income, as well as a number of international tourists, and all the way to mundane indicators as a number of McDonald’s restaurants and IKEA stores. These indicators represent levels of exposure of domestic culture to international influences.

Cleveland and Laroche (2007, p. 252) constructed their research around seven factors relevant for acculturation to the global consumer culture (AGCC):

1. cosmopolitism,
2. exposure to marketing activities of multinational/global companies,
3. exposure to the use of the English language,
4. social interactions (travel, migration, contact with foreigners),
5. global/foreign media exposure,
6. openness (or desire) to emulate global consumer culture,
7. self-identification with global consumer culture.

Further refinement of measuring instruments was done by referring to Guo (2013) who measured global identity and ethnocentrism. Local-global identity scale can be found in works of Tu et al. (2012, p. 41) than concluded in their research that “…participants scoring high on global identity…found global products to be more attractive than local products, whereas participants scoring high on local scale found local products to be more attractive than global products.”

The development of scale items related to preferences for local/global products is based on aforementioned Holt’s (1998) identification of product categories that are considered to be strongly influenced by culture. These categories were consequently used by a number of researchers. Alden et al. (2006) researched global consumption orientation (GCO), testing “…consumer preference for globalized, localized and hybridized within given consumption domain”, putting in focus lifestyle, entertainment, furnishings, clothing choices of their respondents. Stenkamp and Jong (2010) measured attitudes towards local products (ALP) and attitudes towards global products (AGP), following on Slater and Miller (2007, p. 5) view that “…consumption is the study of our contemporary material culture.” Scale items by Stenkamp and de Jong (2010), on the top of previously mentioned, included food as a specific product category, as well as an attitude toward brands and their origin. Attitudes towards brands were used as an indicator of global consumption orientation by Riefler (2012).

Validity of measures related to global/local acculturation, as well as preferences for global/local products, is confirmed by significant theoretical substantiation, thus allowing use of proven measures to test global/local acculturation of Austrian and Serbian respondents by utilizing difference tests. Similarly, the research will test significance of difference between two samples related to different product categories identified as product choices significantly influenced by culture. Lastly, differences will be tested among age groups in search for confirmation of homogeneity/heterogeneity.

3. Preliminary discussion

Answers on the research questions should help marketers tailor a marketing strategy. Success in preliminary research may lead to a decision to extend the scope of the research to several other countries which would help in building statistically more sound generalizations. Theoretical substantiation offers different predictions of possible results, from the perspective of global companies’ most valuable revelation would be in convergence of consumption patterns of younger generations, i.e. proving that differences among generational cohorts are more salient than differences between different cultures. That would be confirmation of slow movement towards more homogeneous markets.

As much as the research is based on substantial past research in the field, originality comes from bringing a quasi longitudinal component.
Some of the research, i.e. Guo (2013) already explored differences related to countries’ levels of development, on the developed/undeveloped continuum. By the authors’ best knowledge, and extensive literature overview, it is not known to us, that someone cross-referenced findings in these studies with different generational cohorts. Results might shed light, give additional perspective, to a contemporary question – do we live in a world in which consumer cultures are gradually converging or has globalization reached the point at which people are turning back to core local cultural values. Differences in between different product categories and different demographics should be beneficial to marketing strategy/tactic creators. If the initial hypothesis proves true – that globalization has its impact in increasingly homogenized markets, it can further confirm possibilities for utilizing economies of scale through an entire specter of marketing mix tools.

The paper rounds up contemporary research in the field and presents a strong methodological and conceptual base for devising a research instrument and progressing in the next phase of empirical research. Consumer culture is changing, and organizations have the daunting task to understand consumers better, across different geographies and cultures in a very intertwined world. Marketing strategies have to be finely tuned to reflect superb understanding of consumers, their needs and desires, consumption and communication patterns. Competitiveness still needs to be won, regardless of distances, exploiting benefits of acting globally and still beating competitors on the local level and winning shares of mind and wallets of customers. As much as it has been heard too many times, the “think globally act locally” formula still seems to have some merit.  

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Competitiveness and Social, Civic Responsibility

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Abstract
The world has been changing faster in the 21st century than it used to do in previous centuries. If we discuss the term “competitiveness” and its enhancing impact, we need inevitably to address the issue of sustainability and the affiliated issue of civic responsibility. People have always utilized natural resources that were renewable. Then with the boom of new industries and technologies people also started to utilize the resources that cannot be renewed by the nature itself or although the resources are renewed they are not able to cover the needs of people. A similar situation exists with the economic and other resources. Where are the limits that cannot be exceeded so that the humankind is not destroyed completely? Is the term of competitiveness relevant to the growth in the quality of life on the Earth, or is it high time we replaced the struggle for growth in competitiveness by another term that would express more responsibility and at the same time sustainability so that future generations are able to survive on this planet. The topic we are addressing seems to be controversial. It is a topic discussed by specialists, professionals and political representatives who try to find the answer to the question: “Where are the limits of sustainability of economy and of the environment, and where are the limits for the cultural sustainability of nations and ethnic groups?” Our paper analyses the state and the need of the civic responsibility towards the nature, culture, economy and towards the humans themselves. Our paper addresses the topic whether it is possible in the science of ecology and in other sciences to replace the term competitiveness by another term. Is this not a condition for protecting and maintaining the quality of life?

Keywords
Civic responsibility, competitiveness, public sector, business.

Introduction
According to the Cambridge Advanced Learner’s Dictionary, responsibility is something that is your job or duty to deal with, or have a responsibility to somebody means a position of authority over you (Cambridge Advanced Learner’s Dictionary, 2013). If we discuss the civic responsibility we need to discuss it at two different levels. One level is created by the social responsibility in its genuine sense that means the responsibility of the entire society for the nature, other citizens, institutions, executive power etc. At the second level there is the responsibility of individuals or companies or the executive institutions for the society, etc. Both levels overlap and need to be discussed and assessed together. Each society forms its own rules or sets up parameters of the social responsibility according to the priorities, so there are two types of the responsibility: corporate social responsibility and community social responsibility.

Being socially responsible means that people and organisations must behave ethically and with sensitivity toward social, cultural, economic and environmental issues. Striving for social responsibility helps individuals, organisations and governments have a positive impact on development, business and society with a positive contribution to bottom-line results.

The term “corporate social responsibility” became popular in the 1960s and has remained a term used indiscriminately by many to cover legal and moral responsibility.
1. Corporate social responsibility and community social responsibility

Corporate social responsibility - CSR, also called corporate conscience or corporate citizenship, is a form of corporate self-regulations integrated into a business model. It functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international standards. In some models, a firm’s implementation of CSR goes beyond compliance and engages in “actions that appear to further some social good, beyond the interests of the firm and that which is required by law”. CSR is a process with the aim to embrace responsibility for the company’s actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere may also be considered stakeholders. Political sociologists became interested in CSR in the context of theories of globalization, neoliberalism and late capitalism.

The corporate social responsibility is represented by the behaviour of the companies in the context of sustainability of resources, environmental sustainability and social interaction. The issues are affiliated closely with the company competitiveness either from the point of view of moral or ethics or from the point of view of the economy sustainability of companies.

The community responsibility increasingly plays a key role in the competitiveness of municipalities, cities and regions. The societal, civic responsibility in this field is perceived as a complexity of environmental, cultural and human relations creating an environment suitable or less suitable for living, doing business, teaching and learning or developing the region. The impact on its competitiveness and sustainability and on the quality of life of the region is implied.

Objective assessment of the level of the civic, societal responsibility needs the rules, regulations and requirements for the responsibility. In the year 1953 Howard R. Bowen (2010) wrote in his book Social Responsibilities of the Businessman: “Corporate social responsibility represents a commitment of entrepreneurs to seek such strategies to make such decisions or carry out such activities, which are desirable in terms of objectives and values of our society.” That means that in that time companies specifically focused on nature-friendly decisions, the decisions that respected the human and social requirements and needs. Gradually the social requirements for the corporate responsibility have changed. The requirement for the environmental sustainability and for the social adequacy of the business plans of the companies has still been dominant.

The requirements in the communal social responsibility have also been varying according to the transfer of competences to the lower level of government in the spirit of subsidiary relations and thus deploying the community in the regional or municipal decision-making processes. The rights that allow the community in a democracy to make decisions about the public matters make the social responsibility very important and give the community a big impact. This is the reason why all stakeholders in the processes need to be informed so that the transformation process can be carried out.

The activities of the global companies, i.e. corporations have been globalized for a long time. The companies have tried to penetrate into the national markets, to dominate them and obtain the cheap labour supply. The producers have reported higher and higher rate of the consumption of resources, energies and they have been producing more and more waste that cannot be treated easily. Due to the fact that the producers are expected to make more profit, to seek for cheaper labour force creating a class of workers – poor and discontented people. This is the reason why producers open positions for minimum wages. This condition opens the economic scissors and becomes unsustainable and creates the situation when the corporate responsibility is concerned. The corporate responsibility makes the companies redistribute the profit for organizations such as charities or organizations providing social assistance. One needs to think of the possibility to distribute the profit at the moment it is made that seems to be more responsible so that they can avoid making the employees being trapped in this social situation. The term “corporate social responsibility” denotes the voluntary effort of companies exceeding the common framework of legal directives. It means deploying more and more intensively all key stakeholders into everyday activities of companies and institutions. Corporate social responsibility lies in the centre of the strategies Europe 2020 and significantly contributes to achieving the goals of the Treaty on the European Union. The goals are set up to be achieved in the field of sustainable development and the competitive social market economy. In the field of social assistance corporate social respon-
sibility is based on assessing and minimizing the negative impact of corporate activities on environment they are active in. The corporate activities concern the issues such as health and the safety of employees, the policy of equal chances, maintaining the balance between the career and private life of the employees, the corporation philanthropy, the rules in lobbying, anti-corruption policy, the growth of the quality of life, etc.

Doing socially responsible business is an ongoing commitment of businesses to behave in an ethical way, contribute to sustainable economic development, while contributing to improving the quality of life of employees and their families, as well as the local community and society as a whole. “Continual corporate social responsibility is an ongoing commitment of businesses to behave ethically, contribute to sustainable economic development, while contributing to improving the quality of life of employees and their families, as well as the local community and society as a whole” (World Business Council for Sustainable Development).

When corporate social responsibility in different countries is discussed, one needs to say that this idea is based on diverse issues. To give an example, the Scandinavian countries have started to make the idea of the social responsibility real through non-governmental environmental organizations such Greenpeace; in Japan the organizations are community-related. In the Slovak and Czech Republic the social responsibility has been discussed by global corporations that accept their traditions and ethic standards at our national market.

The first position means the response to stakeholder’s requirements, followed by ethical behaviour and corporate transparency. Less than fifty per cent is reported with the accordance of the existing legislation and regulation, and then it is responsible behaviour to the environment. Building up relations with the stakeholders has achieved above thirty per cent. PR have between ten and twenty per cent. The last position is taken by modifying the social instability and disbalance.

It is necessary to say that preferring corporate social responsibility by force is unfair. If life and the activities of companies cannot be based on social responsibility, the company fails in preferring the idea of the social responsibility of the company within the company. The management of companies and businesses is expected to understand the need of the social responsibility and to promote it; otherwise this is formal and non-effective. It is necessary to add that the social responsibility is active not only towards the employees or customers, but it is active towards the stakeholders or the company owners. If we ask customers about their perception of the higher-quality service and their answer is free service, we cannot accept it due to the responsibility towards the shareholders, as the shareholders’ perception is to have a profitable company and on the other hand the employees have the right to have a pay. Each element in the process needs the social responsibility and makes it real and this is the reason why it is so important and so real and urgent.

The best way how to perceive and understand social responsibility is to view it as a “good neighbour”. This concept contains two stages. At the beginning this concept means doing things that are good for our neighbours and do not do any harm to our neighbours. The second stage represents a commitment taken voluntarily to assist in resolving issues that happen in the neighbourhood.” (Elibert & Parket). This is social responsibility as it is perceived by cities, regions or countries (within the EU). The policy of cohesion that is realized within the regional policy of the EU is based on the assumption of solidarity. Solidarity is one of the basic conditions of the social responsibilities of the European Union citizens. “The coherence of the spatial levels of the regional policy is reflected in the attribute – promoted region – at the European and national level” (Hájek, Novosák, Zahradník, & Bednár, 2012). The regional disparities that have ever existed in the European Union need to be diminished through social responsibility and the participation of all the stakeholders. They need to be aware of the importance of the process in the EU competitiveness. A very high level of social responsibility and also responsibility of the EU citizens are needed in the European legislation. It is not clear if the common agricultural policy of the EU has a sufficient degree of the social responsi-

![Figure 1](image) Slovak top-managers perceive the CSR as (September 2004, in %)  
*Source: The World Bank, n.d.*  

The first position means the response to stakeholder’s requirements, followed by ethical behaviour and corporate transparency. Less than fifty per cent is reported with the accordance of the existing legislation and regulation, and then it is responsible behaviour to the environment. Building up relations with the stakeholders has
bility when part of the European Parliament, Commission and also very many European citizens promote diverse types of subsidies favouring older members of the EU thus worsening the situation in the newly accessed EU countries. It results in deformations of the agricultural market thus worsening the rural and agrarian countries. Then the newly accessed EU countries report a lowered competitiveness in agriculture.

If we address the social competitiveness at the level of the Slovak public sector, we need to deal with the mutual relations between the central government, self-government and a citizen. These three elements have been overlapping. The first two types of the government are expected to be active in favour of the citizens. All of them are expected to act with a very high degree of social responsibility. The central government needs to accept self-government as the type of management of public affairs controlled by the citizens in municipalities, and regions. Nepotism and favouritism are to be avoided to prevent the regions from disparities. Improving the competitiveness of regions and preferring some regions to other regions seems to be very unfair from the point of view of the whole society. Citizens represent the basic element in the self-government and they have the duty to participate in the self-government thus having impact on transparent and effective utilizing of public resources. The competitiveness in the public sector does not represent favouritism and a misuse of public resources. The terms transparency and favouritism are the elements that have been accompanying the issues of the social responsibility in the public sector. The issues contribute to the continual changes and transformations, to the mutual acceptance and better relations and the quality of life. The participants, the stakeholders in the processes train themselves to achieve social responsibility and they develop a competitive region or municipality. At this point one is expected to stop thinking of competitiveness and growth in competitiveness and to think of effective and tolerant use of the own potential and of outdoor resources to sustain development. We would like to point out the fact that the term of the competitiveness often hides some negative phenomena such as favouritism or nepotism or cartel treaties or unethical issues, destroying the environment or causing climate changes. Let us express the hope that there is time enough to stop all the above mentioned processes and to start behaving socially responsibly. The citizens rather than the authorities and institutions are expected to behave responsibly. We are witnessing the situations when companies, businesses and firms behave irresponsibly and are not punished for their behaviour; they bear no responsibility and in the name of competitiveness and its sustainability they destroy the environment and break the rules. The central government promotes the construction of new industrial parks with a number of new positions but on the other hand these parks cover very many acres of fertile soil, land. Is this social responsibility? Is this the way of enhancing competitiveness? Or do we lead higher-quality lives on the future generations?

Conclusion

Corporate success and social welfare are interdependent. A business needs a healthy, educated workforce, sustainable resources and government to compete effectively.

Local conditions, needs and customs vary considerably and have a significant impact on the likely success of various approaches to building social capital and trust. These regional and cultural differences demand a flexible and responsive approach and must be understood early in order to enable the development and implementation of an effective strategy to earn and maintain social license.

We should not be the slaves of the economic criteria unilaterally preferred and universally supported, but we should pay more attention to particular social activities taking place in a particular time-space context. Only then, the experience (advantages and disadvantages) transferred by generations gain their importance, experience ensuing from long-term coexistence of a man and the country.

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Manuscript Requirements
A paper must be written in text processor Microsoft Word. Paper size: A4. Margins: 3.0 cm on top and bottom, and 2.5 cm on left and right sides. As a guide, articles should be no more than 5,000 words in length. In case the paper exceeds the normal length, the Editors' consent for its publication is needed. Articles submitted for publication in Journal should include the research aim and tasks, with detailed methodology, presenting literature overview on the research object, substantiation of the achieved results and findings, conclusions and a list of references. Manuscripts should be arranged in the following order of presentation.

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Journals paginated by issue begin with page 1 in every issue, so that the issue number is indicated in parentheses after the volume. The parentheses and issue numbers are not italicized, e.g.


Journal article, one author, paginated by volume
Journals paginated by volume begin with page 1 in issue 1, and continue page numbering in issue 2 where issue 1 ended, e.g.

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Journal article, three to six authors, paginated by issue

Journal article, three to six authors, paginated by volume

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 baths

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Book, two authors

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Book, more than six authors

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According to Mirković (2001), “The use of data warehouses may be limited, especially if they contain confidential data” (p. 201).
Mirković (2001), found that “the use of data warehouses may be limited” (p. 201). What unexpected impact does this have on the range of availability?

If the author is not named in the introductory phrase, the author's last name, publication year, and the page number in parentheses must be placed at the end of the quotation, e.g.

He stated, “The use of data warehouses may be limited,” but he did not fully explain the possible impact (Mirković, 2001, p. 201).

**Summary or paraphrase**

According to Mirković (1991), limitations on the use of databases can be external and software-based, or temporary and even discretion-based. (p.201)

Limitations on the use of databases can be external and software-based, or temporary and even discretion-based (Mirković, 1991, p. 201).

**One author**

Boškov (2005) compared the access range…

In an early study of access range (Boškov, 2005), it was found...

**When there are two authors, both names are always cited:**

Another study (Mirković & Boškov, 2006) concluded that…

**If there are three to five authors, all authors must be cited the first time. For subsequent references, the first author’s name will cited, followed by “et al.”.**

(Jovanov, Boškov, Perić, Boškov, & Strakić, 2004).

In subsequent citations, only the first author’s name is used, followed by “et al.” in the introductory phrase or in parentheses:

According to Jovanov et al. (2004), further occurrences of the phenomenon tend to receive a much wider media coverage.

Further occurrences of the phenomenon tend to receive a much wider media coverage (Jovanov et al., 2004).

In “et al.”, “et” is not followed by a full stop.

**Six or more authors**

The first author’s last name followed by "et al." is used in the introductory phrase or in parentheses:

Yossarian et al. (2004) argued that…

… not relevant (Yossarian et al., 2001).
Unknown author

If the work does not have an author, the source is cited by its title in the introductory phrase, or the first 1-2 words are placed in the parentheses. Book and report titles must be italicized or underlined, while titles of articles and chapters are placed in quotation marks:

A similar survey was conducted on a number of organizations employing database managers ("Limiting database access", 2005).

If work (such as a newspaper editorial) has no author, the first few words of the title are cited, followed by the year:

("The Objectives of Access Delegation,” 2007)

Note: In the rare cases when the word "Anonymous" is used for the author, it is treated as the author's name (Anonymous, 2008). The name Anonymous must then be used as the author in the reference list.

Organization as an Author

If the author is an organization or a government agency, the organization must be mentioned in the introductory phrase or in the parenthetical citation the first time the source is cited:

According to the Statistical Office of the Republic of Serbia (1978), …

Also, the full name of corporate authors must be listed in the first reference, with an abbreviation in brackets. The abbreviated name will then be used for subsequent references:

The overview is limited to towns with 10,000 inhabitants and up (Statistical Office of the Republic of Serbia [SORS], 1978).

The list does not include schools that were listed as closed down in the previous statistical overview (SORS, 1978).

When citing more than one reference from the same author:

(Bezjak, 1999, 2002)

When several used works by the same author were published in the same year, they must be cited adding a, b, c, and so on, to the publication date:

(Griffith, 2002a, 2002b, 2004)

Two or more works in the same parentheses

When two or more works are cited parenthetically, they must be cited in the same order as they appear in the reference list, separated by a semicolon.

(Bezjak, 1999; Griffith, 2004)

Two or more works by the same author in the same year

If two or more sources used in the submission were published by the same author in the same year, the entries in the reference list must be ordered using lower-case letters (a, b, c…) with the year. Lower-case letters will also be used with the year in the in-text citation as well:

Survey results published in Theissen (2004a) show that…
To credit an author for discovering a work, when you have not read the original:

Bergson’s research (as cited in Mirković & Boškov, 2006)…

Here, Mirković & Boškov (2006) will appear in the reference list, while Bergson will not.

When citing more than one author, the authors must be listed alphabetically:

(Britten, 2001; Sturlasson, 2002; Wasserwandt, 1997)

When there is no publication date:

(Hessenberg, n.d.)

Page numbers must always be given for quotations:

(Mirković & Boškov, 2006, p.12)

Mirković & Boškov (2006, p. 12) propose the approach by which “the initial viewpoint…

Referring to a specific part of a work:

(Theissen, 2004a, chap. 3)

(Keaton, 1997, pp. 85-94)

Personal communications, including interviews, letters, memos, e-mails, and telephone conversations, are cited as below. (These are not included in the reference list.)

(K. Ljubojević, personal communication, May 5, 2008).

FOOTNOTES AND ENDTNOTES

A few footnotes may be necessary when elaborating on an issue raised in the text, adding something that is in indirect connection, or providing supplementary technical information. Footnotes and endnotes are numbered with superscript Arabic numerals at the end of the sentence, like this. Endnotes begin on a separate page, after the end of the text. However, Strategic Management journal does not recommend the use of footnotes or endnotes.
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